



1984

ANNUAL REPORT

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TEL.: (514) 288-9204

LETTER TO THE SHAREHOLDERS

Montreal, May 2nd, 1985

As Receiver-Manager of Javelin International Limited, I am pleased to send you the audited consolidated financial statements and auditors' report for the year ended December 31, 1984.

Javelin had revenues of 18 127 382\$ and a net income of 2 574 422\$ or 0,359\$ per share for 1984 compared to revenues of 14 956 259\$, a net income of 3 096 544\$ or 0,432\$ per share for 1983.

The Company's gross revenue for 1984 increased by 3 171 123\$ (21%) from 1983 and for 1983 increased by 5 306 093\$ (55%) over 1982.

In 1984 royalties on iron ore shipments increased 1 826 120\$, (17%) over 1983, primarily due to increased shipments of ore from Wabush Mines. In 1983 revenues from ore shipped increased 4 479 935\$ (70%) from 1982 primarily due to increased shipments of ore from Wabush Mines because of the recovery in demand for steel.

The royalty rate on iron ore shipments decreased to 2,04171\$ per ton at the end of 1984 compared to 2,13484\$ per ton at the end of 1983 and 2,12774\$ per ton at the end of 1982.

The Company's royalty rate increases or decreases (but not below 0,75\$ per ton) proportionately with increases or decreases in the published price of ore. Shipments for 1984 were 6 219 190 tons compared to 5 098 452 tons in 1983 and 2 999 766 tons in 1982. The Company's revenues from the sale of oil and gas and royalties for 1984 increased 842 854\$ (55%) from 1983 primarily because of an increase in producing wells. The oil and gas revenues for 1983 increased 201 135\$ (15%) from 1982 primarily because of improved sales.

Revenue from the Javelin-Wabush Iron Contract increased 194 270\$ (15%) in 1984 over 1983 and increased 537 327\$ (68%) in 1983 from 1982. Revenue from the Javelin-Wabush Iron Contract indicated the same trend as royalty revenues because both were based on shipments of ore from Wabush Mines. Interest and other revenues for 1984 increased 243 260\$ (24%) from 1983 primarily because of substantially increased investments in marketable securities.

Total direct costs and expenses for 1984 increased by 1 372 261\$ (20%) from 1983 and for 1983 by 1 572 093\$ (30%) from 1982 primarily due to increased production and shipments of iron ore and oil and gas.

Administration and general expenses decreased by 138 177\$ (6%) for 1984 from 1983 and by 940 550\$ (30%) for 1983 from 1982 due to a general reduction in expenses. 1984, 1983 and 1982 income tax expenses are shown in Note 13. Additionally, extraordinary items relating to 1984, 1983 and 1982 are discussed in Note 18. Administration and general expenses for 1984 under U.S. Generally Accepted Accounting Principles are increased by 8 508\$ for 1983 and 250 644\$ for 1982 due to the recording of actuarial adjustments in respect of deferred liabilities under individual retirement agreements entered into in previous years.

In 1984, the Company made capital expenditures of 1 025 450\$ for exploration and development costs primarily for oil and gas production.

The working capital increases of 1984 of 1 977 238\$ over 1983 and in 1983 of 4 168 726\$ over 1982 resulted primarily because of increases in income from operations and the gain from settlement of debts.

I take this opportunity to bring to your attention a notice which I have caused to be published at the request of the Honourable Mr. Justice John H. Gomery of the Superior Court, district of Montreal, Province of Quebec, Canada. The published text is as follows:

«At the request of the Honourable Mr. Justice John H. Gomery of the Superior Court, district of Montreal, Province of Quebec, Canada, I wish to advise all interested persons that as of 9:15 a.m., local time, on May 6th 1985, the Honourable Mr. Justice John H. Gomery will begin hearing various proceedings relating to Javelin International Limited («Javelin»), at the Court House at Montreal, 10 St-Antoine Street East, room 15.12. The various proceedings are referred to hereinafter with an indication of their principal conclusions.

I) Frederick H. Sparling and Javelin and Michel Robert
in his capacity of Receiver-Manager of Javelin, and
John C. Doyle

In these proceedings, the Director appointed under the Canada Business Corporations Act, Frederick H. Sparling, is asking the Superior Court for an order

- (i) to appoint for no more than a three-year period (subject to extension or reduction) up to three fiduciaries to act as Javelin's Receiver-Manager, with the same powers granted to Michel Robert, Q.C., by the April 7, 1982 order;
- (ii) to annul certain agreements, including a consultancy agreement between John C. Doyle, a subsidiary and Javelin, an arbitration award of approximately 2 630 000\$ (cdn) to Mr. Doyle and certain agreements related thereto, and the assignments of certain royalty payments by Javelin to a subsidiary, Pavonia S.A., and a bank to guarantee the payment of Mr. Doyle's taxes;
- (iii) to order Mr. Doyle to pay Javelin 25 000 000\$ (cdn) in compensation for certain frauds he has allegedly committed against Javelin and its shareholders; and
- (iv) to cancel Mr. Doyle's common shares in Javelin;

II) Paredes et al. and Javelin

Four (4) directors and shareholders of Javelin have requested from the Superior Court of the district of Montreal an order to call a special general meeting of Javelin's shareholders presided over by a Court appointed Chairman to be held in Montreal for the following purposes:

- (i) to remove the present Directors from Office;
- (ii) to elect a new Board of Directors;

- (iii) to inquire of the shareholders' auditors, Roston, Reinharz, Bratt, Fremeth, details in respect of the accounts of Javelin from December 31, 1981 to date;
- (iv) to inquire of the Receiver-Manager details of his administration of Javelin while its business and affairs were under his control;
- (v) to inquire of the Receiver-Manager's financial advisors, Charette, Fortier, Hawey & Cie, Touche Ross & Cie, Chartered Accountants of their activities in respect of the management of Javelin, and their conduct of the auditing of Javelin;
- (vi) to formulate a program and course of action to enable the shareholders to regain control of Javelin;

III) Michel Robert in his capacity of Receiver-Manager of Javelin and Frederick H. Sparling and John C. Doyle

In this petition, the Receiver-Manager of Javelin asks the Superior Court to authorize him to have Javelin declare and pay a dividend of twenty-five cents (cdn) per share; the Receiver-Manager also asks the Court that those dividends otherwise payable in respect of the shares held by John C. Doyle and certain other shareholders who might be found to hold shares directly or indirectly for the benefit of said John C. Doyle be held in trust until adjudication by the Court with respect to said dividends.

IV) Application by Stephen Fleming

A shareholder of Javelin has made an application to the Quebec Superior Court for directives under the Corporations Act to authorize the Receiver-Manager to proceed with a dividend of all the shares of Bison Petroleum & Minerals Limited («Bison») to Javelin's shareholders to authorize the Receiver-Manager to declare a cash dividend to Javelin's shareholders on such terms and conditions and to such shareholders as he may deem fit; to authorize the Receiver-Manager to study the possibilities of creating a trust to distribute the income from the Wabush Royalty Income to Javelin's shareholders on a continuing basis.

V) Intervention by Maria Grusk and Application by
Raymond Balestreri

Maria Grusk in her intervention asks the Superior Court to be declared owner of 55 250 fully paid and non-assessable shares, without nominal or par value of the capital stock of Javelin.

Mr. Balestreri, in his application, asks for an order that Javelin pay professional fees and disbursements of 168 847\$ (cdn) incurred by him with respect to the inquiry of the Restrictive Trade Practices Commission into Javelin's affairs.

VI) Inversiones Montforte S.A. («Inversiones»), Kent
Enterprises Inc. («Kent») and Javelin, Michel
Robert in his capacity of Receiver-Manager of
Javelin, Charette, Fortier, Hawey & Co., Touche
Ross & Co. («Charette, Fortier») and David Fleming
et al.

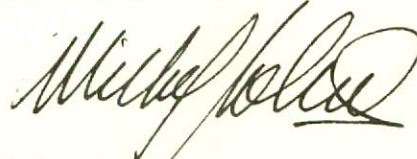
In this petition, Inversiones and Kent (two panama-
nian corporations) ask the Court to discharge Michel Robert
the Receiver-Manager of Javelin. They also ask a simultaneous
order appointing an interim Receiver-Manager for 45 days
solely as custodian of the assets of Javelin to provide time
for Javelin to be returned to the administration of the Board
of Directors elected by the shareholders. Petitioners also
seek an order confirming violation by the Receiver-Manager
and Charette Fortier of certain provisions of the Canada
Business Corporations Act relating to statements in certain
returns, reports and notices, and a prohibition from conti-
nuing certain alleged illegalities, including alleged illegal
disclosures and disclosure of inside information. Petitioners
also request an order that Respondent Sparling be enjoined
from pursuing alleged violations of law and from pursuing his
present legal action pending review by the Court of the mis-
conduct alleged by Petitioners, inclusive of disclosures and
non disclosures; Petitioners also ask permission to initiate
and pursue a derivative damage action against Respondents.
Petitioners also seek to have the Court order the Receiver-
Manager and Charette Fortier to return to Javelin payments
allegedly made to any and all persons including sums paid
in settlement of certain litigation against Javelin; they
also seek the return to Javelin of alleged profits on shares
of Javelin acquired by Respondent Fleming.

VII) Extension of the Appointment of the Receiver-
Manager

The undersigned also wishes to advise that on April 19th, 1985, the Honourable Mr. Justice John H. Gomery handed down an order extending the appointment of the Receiver-Manager Michel Robert until August 3rd, 1985, unless the Court otherwise orders. The Court added that said extension could be extended or reduced on application by any interested person and that the Receiver-Manager continue to have the same powers, obligations and rights as those originally granted to him by the judgment of the Honourable Mr. Justice Melvin L. Rothman of April 7th, 1982 and other subsequent judgments of the Superior Court.»

Please be assured of my continued efforts in the interest of Javelin shareholders and in the execution of my mandate.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Michel Robert', with a stylized flourish at the end.

Michel Robert, Q.C.
Receiver-Manager
JAVELIN INTERNATIONAL LIMITED

c/o Robert, Dansereau, Barré,
Marchessault & Lauzon
P.O. Box 67, Station Desjardins
1, Complexe Desjardins, Suite 1211
Montreal, (Quebec) H5B 1B2
CANADA

ROSTON, REINHARZ, BRATT, FREMETH

COMPTABLES AGRÉÉS / CHARTERED ACCOUNTANTS

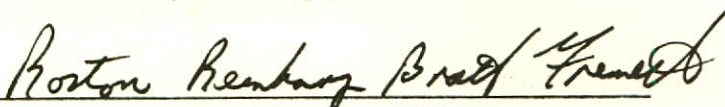
JOSEPH D. ROSTON, C.A.
BERNARD H. REINHARZ, C.A.
STEPHEN BRATT, C.A.
LENARD L. FREMETH, C.A.
WILLIAM J. STAR, C.A.
ERIC BLITSTEIN, C.A.

AUDITORS' REPORT

To the Receiver Manager of
Javelin International Limited

We have examined the consolidated balance sheet of JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES as at December 31, 1984, and consolidated statement of income, deficit, and changes in financial position for the year then ended, and the supporting schedules. Our examinations were made in accordance with generally accepted auditing standards in Canada and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

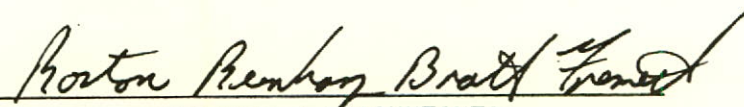
In our opinion, the financial statements present fairly the consolidated financial position of JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES as at December 31, 1984, the results of its consolidated operations and the changes in its consolidated financial position for the year then ended and the supporting schedules present fairly the information required to be submitted under the regulations of the Securities and Exchange Commission, all in conformity with accounting principles generally accepted in Canada (which differ from accounting principles generally accepted in the United States as set forth in Note 20 to the financial statements) applied on a basis consistent with that of the preceding year.


CHARTERED ACCOUNTANTS

Montreal, Canada
April 12, 1985.

COMMENTS BY AUDITORS FOR UNITED STATES READERS ON CANADA - UNITED STATES REPORTING CONFLICT

In the United States, reporting standards for auditors require expression of a qualified opinion, when financial statements are affected by significant uncertainties, such as those described in Notes 1(b), 2(a), 15(h)(k) to the consolidated financial statements. The opinion in our report to shareholders dated April 12, 1985, is not qualified with respect to, and provides no reference to these uncertainties. Such a qualified opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.


CHARTERED ACCOUNTANTS

Montreal, Canada
April 12, 1985.

JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES

(Incorporated Under the Canada Business Corporations Act)

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31 1984 AND 1983
(In Canadian Dollars)

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)
<u>ASSETS</u>		
<u>CURRENT</u>		
Cash and term deposits	\$ 2,374,587	\$ 2,825,937
Marketable securities	8,911,976	928,245
Royalties and other receivables (Note 4)	6,273,675	5,548,428
Receivable from the Government of Newfoundland (Note 5)	3,469,732	3,020,561
Income taxes receivable (Note 13)	3,338,816	2,455,303
Deposits and prepaid expenses	<u>729,382</u>	<u>617,258</u>
	\$25,098,168	\$15,395,732
Receivable under Javelin-Wabush Iron Contract - Net of unamortized valuation discount (Note 6)	4,913,809	5,064,589
Balance due: re sale of the Linerboard Project - Net of allowance (Note 7)	3,079,334	3,079,334
Compensation receivable - Julianne Lake (Note 8)	750,000	750,000
Mortgage receivable (Note 12)	447,613	451,273
Advances to and investments in non-consolidated subsidiaries and associated companies (Note 9)	4,267	129,267
Properties, mineral rights, leases, permits and concessions including exploration, development and well costs, plant and equipment (Note 10)	<u>4,871,621</u>	<u>4,888,520</u>
	\$39,164,812	\$29,758,715
	=====	=====

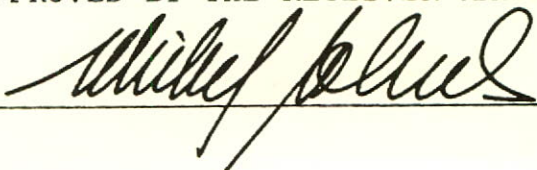
SUBMITTED WITH OUR REPORT
DATED APRIL 12, 1985.

See the accompanying notes to the
Consolidated financial statements

Roston Penning Broth & Francis

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)
<u>LIABILITIES</u>		
<u>CURRENT</u>		
Accounts payable	\$ 1,640,881	\$ 1,462,614
Amounts claimed by the Government of Newfoundland (Note 11)	12,331,647	10,707,469
Income taxes payable (Note 13)	4,997,453	-
Deferred income taxes (Note 14)	<u>925,300</u>	<u>-</u>
	\$19,895,281	\$12,170,083
Due to non-consolidated subsidiaries (Notes 1(a), 2(a) (ii))	580,821	762,271
Advances payable to minority shareholders	32,445	103,878
Deferred income taxes (Note 14)	96,000	803,300
Minority shareholders' equity	<u>1,182,806</u>	<u>1,116,146</u>
	<u>\$21,787,353</u>	<u>\$14,955,678</u>
Contingent liabilities, litigation and other matters (Notes 1, 2(a), and 15)		
<u>SHAREHOLDERS' EQUITY</u>		
<u>CAPITAL STOCK</u> (Note 16)		
Authorized :		
Class "A" Preferred - Unlimited number of no par value shares		
Common - Unlimited number of no par value shares		
Issued and fully paid :		
Common - 7,169,648 shares	\$42,592,787	\$42,592,787
<u>CONTRIBUTED SURPLUS</u>	45,000	45,000
<u>DEFICIT</u>	<u>(25,260,328)</u>	<u>(27,834,750)</u>
	<u>\$17,377,459</u>	<u>\$14,803,037</u>
	\$39,164,812 =====	\$29,758,715 =====

APPROVED BY THE RECEIVER MANAGER



JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEARS ENDED DECEMBER 31 1984, 1983 AND 1982
(In Canadian Dollars)

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
<u>DEFICIT - BEGINNING OF YEAR</u> <u>AS PREVIOUSLY STATED</u>	\$(30,549,586)	\$(33,316,624)	\$(1,328,108)
<u>PRIOR PERIOD ADJUSTMENTS</u> <u>AND CORRECTIONS (Note 19)</u>			
Change in reporting entities (Note 2(a)(ii)):			
Pavonia, S.A.	-	-	(24,132,541)
Bison Petroleum & Minerals Limited	-	-	(2,231,478)
Correction of convertible debentures (Note 15 (h))	686,013	623,213	28,056
Correction of Newfoundland escalation taxes (Note 11)	693,818	570,837	466,833
Settlement of mining taxes with the Government of Newfoundland (Note 5)	-	-	646,632
Settlement of income taxes litigation including interest and deferred income tax thereon (Note 13)	1,248,291	1,108,394	(790,988)
Other income tax and non resident tax adjustments	<u>86,714</u>	<u>82,886</u>	<u>269,886</u>
<u>DEFICIT - BEGINNING OF YEAR</u> <u>AS RESTATED</u>	\$(27,834,750)	\$(30,931,294)	\$(27,071,708)
<u>NET INCOME (LOSS) FOR THE YEAR</u>	<u>2,574,422</u>	<u>3,096,544</u>	(3,859,586)
<u>DEFICIT - END OF YEAR</u>	<u>\$(25,260,328)</u>	<u>\$(27,834,750)</u>	<u>\$(30,931,294)</u>

See accompanying notes to the consolidated financial statements.

JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS DECEMBER 31 1984, 1983 AND 1982

(In Canadian Dollars)

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
<u>REVENUE</u>			
Gross royalties earned on iron ore (Note 17)	\$12,673,491	\$10,847,371	\$6,367,436
Oil royalties	266,522	278,770	138,319
Sale of oil and gas	2,096,786	1,241,684	1,181,000
Dividends from an associated company (Note 17)	328,123	263,504	165,557
Javelin-Wabush Iron Contract (Note 6)	1,525,229	1,330,959	793,632
Interest and other	<u>1,237,231</u>	<u>993,971</u>	<u>1,004,222</u>
	<u>\$18,127,382</u>	<u>\$14,956,259</u>	<u>\$9,650,166</u>
<u>COSTS AND EXPENSES</u>			
Direct cost of royalties earned on iron ore			
Newfoundland mining tax	\$ 2,119,188	\$ 1,839,203	\$1,029,609
Newfoundland escalation tax (Note 11)	2,238,922	1,898,092	1,085,013
Royalties to an associated company	1,990,141	1,631,505	959,925
Amortization and depreciation	601,339	601,673	602,321
Provision on mineral rights	<u>40,511</u>	<u>79,023</u>	<u>694,681</u>
	<u>\$ 6,990,101</u>	<u>\$ 6,049,496</u>	<u>\$4,371,549</u>
Direct cost of oil and gas			
Well operating	\$ 627,303	\$ 481,145	\$ 642,871
Exploration and development	106,197	104,273	110,562
Amortization, depreciation and depletion	227,400	15,844	14,125
Properties sold or abandoned	<u>173,099</u>	<u>101,081</u>	<u>40,639</u>
	<u>\$ 1,133,999</u>	<u>\$ 702,343</u>	<u>\$ 808,197</u>
<u>TOTAL DIRECT COSTS AND EXPENSES</u>	<u>8,124,100</u>	<u>6,751,839</u>	<u>5,179,746</u>
	<u>\$10,003,282</u>	<u>\$ 8,204,420</u>	<u>\$4,470,420</u>

	<u>1984</u>	<u>1983</u> (Unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
<u>BROUGHT FORWARD</u>	\$10,003,282	\$ 8,204,420	\$4,470,420
Write off of advances and investments in subsidiaries and associated companies	100,178	-	-
Administration and general	2,105,072	2,243,189	3,183,739
Fees to receiver-manager	<u>253,269</u>	<u>304,536</u>	<u>338,424</u>
<u>INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS</u>	\$ 7,544,763	\$ 5,656,695	\$ 948,257
Income taxes (Note 13)			
Current	4,488,258	2,956,357	979,049
Deferred	<u>218,000</u>	<u>151,390</u>	<u>356,900</u>
	\$ <u>4,706,258</u>	\$ <u>3,107,747</u>	\$ <u>1,335,949</u>
<u>INCOME (LOSS) BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEMS</u>	\$ 2,838,505	\$ 2,548,948	\$ (387,692)
Minority interest	(<u>66,660</u>)	(<u>7,404</u>)	(<u>73,965</u>)
<u>INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS</u>	\$ 2,771,845	\$ 2,541,544	\$ (461,657)
<u>EXTRAORDINARY ITEMS (Note 18)</u>	(<u>197,423</u>)	<u>555,000</u>	(<u>3,397,929</u>)
<u>NET INCOME (LOSS) FOR THE YEAR</u>	\$ 2,574,422 =====	\$ 3,096,544 =====	\$ (3,859,586) =====
<u>INCOME (LOSS) PER SHARE</u>			
Income (Loss) per share before extraordinary items	\$ 0.387	\$ 0.355	\$(0.064)
Extraordinary gain (Loss)	<u>(0.028)</u>	<u>0.077</u>	<u>(0.474)</u>
<u>NET INCOME (LOSS) PER SHARE FOR THE YEAR</u>	\$ 0.359 =====	\$ 0.432 =====	\$(0.538) =====

See accompanying notes to the consolidated financial statements.

JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984, 1983 AND 1982
(In Canadian Dollars)

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
<u>SOURCES OF WORKING CAPITAL</u>			
<u>Operations</u>			
Income (Loss) before extraordinary items	\$ 2,771,845	\$ 2,541,544	\$ (461,657)
Items not requiring an outlay of funds :			
Amortization, depreciation, and depletion	828,739	617,517	616,446
Provision on mineral rights, properties sold or abandoned	40,511	79,023	694,681
Net loss on disposal of fixed assets	154,626	93,228	-
Deferred income tax provision	218,000	151,390	356,900
Foreign exchange loss on non- current items	37,514	7,849	18,302
Provision on advances and investments to a non-consolidated subsidiary	-	37,770	-
Minority interest	<u>66,660</u>	<u>7,404</u>	<u>73,965</u>
<u>Provided from Operations</u>	\$4,117,895	\$3,535,725	\$1,298,637
 Write off of Debentures (Note 2(a) and 15(h))	\$ -	\$ -	\$ 500,000
Gain on settlement of debts	-	555,000	247,122
Javelin-Wabush Iron Contract	150,780	97,475	46,812
Mortgage receivable	3,660	3,226	3,501
Net proceeds from disposal of fixed assets	<u>18,473</u>	<u>10,537</u>	<u>65,941</u>
	<u>\$ 4,290,808</u>	<u>\$ 4,201,963</u>	<u>\$2,162,013</u>

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
<u>USES OF WORKING CAPITAL</u>			
Provision relating to advances made to a subsidiary	\$ -	\$ -	\$1,295,680
Non-current advances to non-consolidated subsidiaries	-	-	63,601
Additions to properties, mineral rights, leases, permits and concessions including exploration, development and well costs, plant and equipment	1,025,450	19,541	132,496
Reduction of advances from minority shareholders	71,433	13,696	-
Mortgage repayments	-	-	13,770
Reclassification of deferred income tax	-	-	38,433
Settlement of a litigation (Note 15(f))	291,387	-	-
Current portion of deferred income taxes	<u>925,300</u>	<u>-</u>	<u>-</u>
	<u>\$2,313,570</u>	<u>\$ 33,237</u>	<u>\$1,543,980</u>
<u>INCREASE IN WORKING CAPITAL</u>	\$1,977,238	\$4,168,726	\$ 618,033
<u>WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR</u>	<u>\$3,225,649</u>	<u>\$ (943,077)</u>	<u>\$ (1,561,110)</u>
<u>WORKING CAPITAL (DEFICIENCY)- END OF YEAR</u>	<u>\$5,202,887</u> =====	<u>\$3,225,649</u> =====	<u>\$ (943,077)</u> =====

See accompanying notes to the consolidated financial statements

JAVELIN INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984, 1983 AND 1982
(In Canadian Dollars)

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
<u>CHANGES IN COMPONENTS OF</u>			
<u>WORKING CAPITAL</u>			
<u>INCREASE (DECREASE) IN CURRENT ASSETS</u>			
Cash	\$(460,350)	\$1,734,412	\$ 792,972
Marketable securities	7,992,731	927,366	879
Royalties and other receivables	725,247	1,966,208	(1,089,715)
Receivable from the Government of Newfoundland	449,171	267,616	273,362
Income taxes receivable	883,513	(614,980)	1,072,344
Deposits and prepaid expenses	<u>112,124</u>	<u>(521,572)</u>	<u>265,032</u>
<u>INCREASE IN CURRENT ASSETS</u>	<u>\$ 9,702,436</u>	<u>\$3,759,050</u>	<u>\$1,314,874</u>
<u>(INCREASE) DECREASE IN CURRENT LIABILITIES</u>			
Accounts payable	\$ (178,267)	\$1,245,974	\$ 24,710
Amounts claimed by the Government of Newfoundland	(1,624,178)	(836,298)	(721,551)
Income taxes payable	(4,997,745)	-	-
Deferred income taxes	<u>(925,300)</u>	<u>-</u>	<u>-</u>
<u>(INCREASE) IN CURRENT LIABILITIES</u>	<u>(7,725,198)</u>	<u>409,676</u>	<u>(696,841)</u>
<u>INCREASE IN WORKING CAPITAL</u>	<u>\$ 1,977,238</u> =====	<u>\$4,168,726</u> =====	<u>\$ 618,033</u> =====

See accompanying notes to the consolidated financial statements.

JAVELIN INTERNATIONAL LIMITED

Notes to the Consolidated Financial Statements
December 31, 1984.

(Figures as at December 31, 1983 and for the years
ended December 31, 1983 and 1982 are unaudited)

(All amounts stated herein are in Canadian dollars
unless otherwise indicated.)

Note 1(a) Appointment of a Receiver-Manager by the Superior Court of
the District of Montreal

On April 7, 1982, following an application presented in January 1982 by Inversiones Montforte S.A. and subsequently amended, the Superior Court of the District of Montreal, appointed Michel Robert, Q.C. as receiver-manager of the Company's affairs pursuant to Section 234 of the Canada Business Corporations Act, (The "Corporations Act"), for 24 months commencing on the date of the order, subject to extension or reduction by the Superior Court at the request of an interested person. The Superior Court also suspended the directors' powers and certain contracts and payments involving the Company and/or all subsidiaries controlled by John C. Doyle and/or Mr. Doyle himself. The Superior Court also authorized the receiver-manager to engage Charette, Fortier, Hawey & Cie, Touche Ross & Cie, Chartered Accountants, and such legal counsel as he may require to carry out his functions. The order specifies that the expenses and costs of the receiver-manager will be paid by the Company in the amounts approved by the Superior Court.

On March 30, 1984, the Quebec Superior Court extended the term of the appointment of Michel Robert, Q.C. as receiver-manager until April 30, 1985, upon the application of Frederick H. Sparling, Director of Corporations of the Canadian Government Consumer and Corporate Affairs Department. The extension of the term of Michel Robert, Q.C. as receiver-manager is subject to further extension or reduction by the Quebec Superior Court on application by any interested person should the circumstances warrant.

Mr. Sparling's application also requests the Quebec Superior Court (i) to appoint for no more than a three-year period (subject to extension or reduction) up to three fiduciaries to act as Javelin's receiver-manager, with the same powers granted to Michel Robert, Q.C. by the April 7, 1982 order: (ii) to annul certain agreements, including a consultancy agreement between John C. Doyle, a subsidiary and the Company, an arbitration award of approximately \$2,630,000 to Mr. Doyle and certain agreements related

thereto, and the assignments of certain royalty payments by the Company to a subsidiary, Pavonia S.A., and a bank to guarantee the payment of Mr. Doyle's taxes: (iii) to order Mr. Doyle to pay the Company \$25,000,000 in compensation for certain frauds he has allegedly committed against the Company and its shareholders; and (iv) to cancel Mr. Doyle's common shares of the Company.

This application is currently pending before the Quebec Superior Court.

(b) Inquiry under Section 114 of the Canada Corporations Act

In 1977, an inquiry under Section 114 of the Canada Corporations Act began, following an order made by the Restrictive Trade Practices Commission of Canada ("the Commission"). The director of the Corporations Branch of the Ministry of Consumer and Corporate Affairs (Canada) was appointed Inspector to conduct the inquiry.

In 1982, the Commission commenced hearings to consider evidence and representations in support of or against the Inspector's statement of evidence. In September 1983, the Commission handed down its report and recommended that (i) three trustees be appointed with full power over the Company's assets and business affairs for an initial term of five years, (ii) that the trustees should seek to sell the Company's assets and distribute the proceeds to its shareholders (except that if reasonable prices cannot be obtained, the trusteeship could continue to receive and distribute income from the properties) and (iii) the Canadian Government should take action with the Panamanian Government with respect to the Company's subsidiary, Pavonia, S.A., to guard against further erosion of shareholders' interest.

(c) Application by a Shareholder under The Canada Business Corporations Act

In April 1984, a shareholder of the Company made an application to the Quebec Superior Court for directives under the Corporations Act to authorize the receiver-manager to proceed with a dividend of all the shares of Bison Petroleum and Minerals Limited (Bison) to the Company's shareholders to authorize the receiver-manager to declare a cash dividend to the Company's shareholders on such terms and conditions and to such shareholders as he may deem fit; to authorize the receiver-manager to study

the possibilities of creating a trust to distribute the income from the Wabush Royalty Income to the Company's shareholders on a continuing basis. This application is currently pending before the Quebec Superior Court.

(d) Application for a special general meeting of Shareholders under Section 138 of the Canada Business Corporations Act

In April 1985 four (4) directors and shareholders of the company have requested from the Superior Court of the District of Montreal an order to call a special general meeting of Javelin to be held in Montreal on May 3, 1985 for the following purposes :

- (1) To remove the present Directors from Office.
- (2) To elect a new Board of Directors.
- (3) To inquire of the shareholders' auditors, Roston, Reinharz, Bratt, Fremeth, details in respect of the accounts of Javelin International Limited from December 31, 1981 to date.
- (4) To inquire of the Receiver-Manager details of his administration of the company while its business and affairs were under his control.
- (5) To inquire of the Receiver-Manager's financial advisors, Charette, Fortier, Hawey & Cie, Touche Ross & Cie, Chartered Accountants of their activities in respect to the management of the Corporation, and their conduct of the auditing of the Corporation.
- (6) To formulate a program and course of action to enable the shareholders to regain control of their Corporation.

The application is presently pending before the Court.

Note 2 Summary of Significant Accounting Policies.

(a) (i) Basis of Presentation - Going Concern

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly they do not give effect to adjustments that might be necessitated should, as a result of the matters discussed in Note 1(b),

and 16(h) the Company be impaired in its ability to continue to operate as a going concern, and in whole or in part to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

(ii) Principles of Consolidation

The consolidated financial statements include the accounts of Javelin International Limited and all of its subsidiaries, except Pavonia, S.A. and its subsidiaries (Pavonia) and Bison Brewing Company Limited.

Since the appointment of the receiver-manager, the Company has been unable to obtain access to and control of Pavonia's operations, assets and books and records. Furthermore, proceedings in Panama similar to the receivership under the Corporations Act have been taken against Pavonia at the Company's request. Consequently, Pavonia has been excluded from the consolidation and investments in and advances to were written down to \$1 in 1982 and are currently carried at \$1.00 with the resulting adjustment of \$ 24,132,541 being added to the consolidated deficit previously reported as of December 31, 1981. In addition, advances amounting to \$ 810,680 made to Pavonia between January 1, 1982 and April 7, 1982 were entirely provided for and the related loss has been shown as an extraordinary item in the year ended December 31, 1982. The write off of the convertible Debentures Payable of \$500,000 issued in 1980 to Pole Investments has been recorded as extraordinary income in the year ended December 31, 1982 (See Note 15h and 18).

The accounts of a subsidiary, Bison Petroleum & Minerals Limited, have been consolidated for the years ended December 31, 1982, 1983 and 1984. As of December 31, 1981, Bison Petroleum & Minerals Limited was excluded from consolidation as there was litigation over the ownership of that company. This litigation was settled on December 21, 1983 re-establishing the control of Javelin International Limited over Bison Petroleum & Minerals Limited. The participation of the Company in Bison was given retroactive effect and consequently the consolidated deficit reported as of December 31, 1981 was increased by \$2,231,478.

Bison Brewing Company Limited, a wholly owned subsidiary of Bison is excluded from consolidation as it has ceased active commercial operations and sold its major assets. Losses to the Company in the equity of this subsidiary have been provided for.

(b) Marketable Securities

Marketable Securities are comprised of bonds and are stated at cost which approximates market value.

(c) Advances to and investments in associated companies

Potential losses on advances to and investments in associated companies are provided for as and when required.

(d) Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation calculated primarily on the declining balance method.

(e) Properties, mineral rights, leases, permits and concessions including exploration and development costs.

The costs of properties, mineral rights, leases, permits and concessions including exploration and development costs are being deferred until such time as the properties are placed in production, sold or abandoned. If placed in production, costs are amortized by charges to income over the estimated useful life of the property.

Unamortized expenses on mineral leases of the Wabush project are being amortized on the straight line basis over 25 years at the rate of \$600,597 per annum.

(f) Oil and Gas Interests

The Company follows the direct cost method of accounting for oil and gas activities whereby costs relating directly to the acquisition, exploration and development of specific oil and gas properties are capitalized. General exploration and development expenditures not related to specific properties are expensed in the year incurred. Accumulated costs related to producing properties are depleted by the unit-of-production method based on estimated proven reserves. Had the Company followed the successful efforts method of accounting, there would have been no significant difference in the financial statements.

(g) Javelin-Wabush Iron Contract

Future receipts on the balance of the sale price of 10% of the capital stock of Wabush Lake Railway Company Limited and 10% of the capital stock of Wabush Iron Company Limited

are reflected as a receivable net of unamortized valuation discount (See Note 6).

(h) Foreign currency translation

Assets and liabilities are translated into Canadian dollars using the rates in effect at the year end. Exchange gains and losses are given immediate recognition in the consolidated statement of income.

(i) Earnings per share

Earnings per share are calculated using the number of common shares outstanding. Outstanding options have no material dilutive effect on earnings per share.

(j) Reconciliation to United States Accounting Principles.

The Company, in the preparation of its financial statements, conforms to generally accepted accounting principles prevailing in Canada.

For transactions for which the application of these principles differs significantly from generally accepted accounting principles in the United States, reconciliations are presented (See Note 20).

Note 3 Reclassifications

Certain amounts for 1983 and 1982 have been reclassified to conform with the presentation of similar amounts in the 1984 financial statements.

Note 4

Royalties and other receivables

	1984	1983 (unaudited) (restated)
	<hr/>	<hr/>
Royalties from Wabush Mines (Note 17)	\$2,485,412	\$2,379,877
Javelin-Wabush Iron Contract (Note 6)	1,676,009	1,428,433
Dividend-Knoll Lake Minerals Lim- ited recorded on the accrual basis (Note 17)	167,612	151,041
Interest on income taxes (Note 13)	1,522,547	1,360,591
Other receivables including trade	<hr/> 422,095	<hr/> 228,486
	\$6,273,675 =====	\$5,548,428 =====

Note 5

Receivable from the Government of Newfoundland

In 1983 and 1984, the Government of Newfoundland assessed the Company for the years 1975 to 1983 under the Mining and Mineral Rights Tax Act, allowing expenses in reduction of the taxable income as previously claimed by the Company.

The Government of Newfoundland has applied the said refund against the escalation tax on royalties allegedly due by the Company pursuant to the Government Javelin Taxation (Confirmation of Agreement) Act of 1959 as amended (Note 11). The Company has contested this unilateral compensation of the amounts assessed. The \$646,632 represents amounts receivable for the years prior to 1982 in excess of the amounts recorded by the Company for those years and has been accounted for accordingly.

Note 6

Receivable Under the Javelin-Wabush Iron Contract-
net of unamortized valuation discount.

An amount resulting from the sale to Wabush Iron Company Limited of 10% of the capital stock of Wabush Lake Railway Company Limited and 10% of the capital stock of Wabush Iron Company Limited on January 30, 1959 is payable as iron ore is shipped from the Wabush leased premises at varying rates. Such amounts should not be less than \$275,000 per year. As at December 31, 1984 the balance receivable under this agreement was \$12,619,057 (December 31, 1983 - \$14,295,066).

If the Wabush lease is cancelled by Wabush Iron Company Limited, as it may do on 60 days' notice, no further payments thereon need be made, but the mining lease must be surrendered to the Company and if Wabush Iron Company Limited defaults in making the required payment of any instalment, when due, and which default shall not be remedied within 60 days of notice of default, it must also surrender to the Company the title to, and possession of, all its buildings, plant and machinery on the leased premises.

In 1977, the Company included in its income for the year the profit on the sale of capital stock, calculated on the remaining minimum payments receivable discounted at 5% over 76.25 years. At December 31, 1984, the value of annual minimum payments calculated on the same basis amounted to \$4,913,809 (December 31, 1983 - \$5,064,589) and the unamortized valuation discount for 1984 amounted to \$7,705,248 (December 31, 1983 - \$9,230,477). The unamortized valuation discount is taken into income as payments under the Javelin-Wabush Iron Contract are received. For 1984 income amounted to \$1,525,299 (1983 \$1,330,959) and is included in royalties and other receivables.

Note 7

Balance due re: Sale of the Linerboard Project

The balance of \$3,779,334 excluding interest is in addition to the \$6,600,000 already received from the government of Newfoundland which results from the sale of the Linerboard Mill Project at Stephenville and associated wood harvesting operations in Goose Bay (Note 15(c)). In the receiver-manager's opinion, the claim is meritorious, but because there is no assurance that the Company will recover the full amount, it has accordingly provided a \$700,000 allowance for possible uncollectability of the account.

In April 1982, the Company instituted proceedings in the Trial Division of the Supreme Court of Newfoundland claiming the amount of \$1,272,367 regarding issues which are not included in the claim currently pending before the arbitration board. This additional amount has not been recorded in the financial statements.

Note 8

Compensation receivable - Julianne Lake

In 1960, the Company leased properties at Julianne Lake in Labrador for 99 years. In 1975, the Government of Newfoundland passed an act to provide for the reversion of these properties to the Province for a maximum compensation of \$750,000 (Note 15 b).

The Company's investment in these properties amounted to \$3,549,271. Due to the uncertainty of the Company realizing its investment of \$3,549,271 in the Julianne Lake property, an allowance of \$2,799,271 was provided for, being the difference between the investment in these properties and the maximum amount of the consideration provided for in the Reversion Act.

Note 9

Advances to and investments in non-consolidated subsidiaries and associated companies.

Advances to and investments in non-consolidated subsidiaries and associated companies, net of provisions, are as follows:

	<u>1984</u>	<u>1983</u> (unaudited)
Non-consolidated subsidiaries		
Pavonia S.A.	\$ 1	\$ 1
Bison Brewing Company Limited	-	125,000
Associated companies		
Knoll Lake Minerals Limited	4,263	4,263
Dominion Jubilee Corp. Limited	1	1
Jubilee Quebec Holdings Limited	1	1
Norlex Mines Limited	<u>1</u>	<u>1</u>
	\$ 4,267	\$ 129,267
	=====	=====

Note 10

Properties, Mineral rights, leases, permits and concessions including exploration, development, well costs, plant and equipment.

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (note 19)
Producing properties		
oil and gas	1,278,290	765,710
Production and other		
equipment	<u>901,217</u>	<u>651,283</u>
	2,179,507	1,416,993
less accumulated depreciation		
and depletion	<u>(1,160,600)</u>	<u>(976,730)</u>
	1,018,907	440,263
Non producing properties -		
oil and gas	355,834	396,263
Mineral rights, leases, permits		
and concessions including		
exploration and development		
costs - net	<u>3,496,880</u>	<u>4,051,342</u>
	<u>\$ 4,871,621</u>	<u>\$ 4,888,520</u>
	=====	=====

Note 11

Amounts claimed by the Government of Newfoundland-
Escalation Tax on Royalties.

Under the Government Javelin Taxation (Confirmation of Agreement) Act of 1959 as amended, the Government of Newfoundland is claiming an escalation tax on shipments of iron ore concentrate computed from the Lake Erie market price. The rate was \$0.372878 per ton in 1984 and \$0.39637 in 1983 and 1982.

The Company contested the validity and applicability of this tax in the Trial Division of the Supreme Court of Newfoundland and a decision was rendered against the Company. The Company appealed the decision in 1982 in the Appeals Division of the Supreme Court of Newfoundland (Note 15(d)). No decision has been rendered at the present time. This tax has been recorded in the financial statements.

As mentioned in Note 17, the Lake Erie price of Old Range

Non-Bessemer ore has ceased to be published. The amounts of escalation tax recorded by the Company for the year ended December 31, 1984 have been estimated using the published price of the Mesabi Non-Bessemer ore.

Note 12

Mortgage Receivable

The mortgage bears interest at 13% per annum and is recievable in equal blended monthly instalments of \$ 5,049. The balance of the mortgage matures in 1988.

Note 13

Income Taxes

During 1984 the Company reached an agreement with Revenue Canada settling all outstanding litigation concerning federal income taxes for the years 1970 to 1982. New assessments were received in February 1985 from Revenue Canada reflecting the agreement reached in 1984 and resulting in reduction of the federal tax liability of \$8,409,007 for the years in question, which includes a reduction of previous interest charges as well as interest on the refund.

Provincial income taxes receivable from the Province of Quebec have been estimated on the assumption that the Quebec authorities will concur with the changes made by Revenue Canada.

New assessments are expected to be received shortly from the Ministere du Revenu du Quebec and it is expected that these will reflect a decrease in taxes and interest of approximately \$ 950,000 for the same period.

In 1981 Revenue Canada assessed the Company \$ 126,931 (including interest) for 1977 income taxes in respect to the expropriation of the Julienne Lake deposit. The Company is contesting this assessment and no provision has been made in the financial statements.

In 1983, the Ministere du Revenu du Quebec assessed the Company \$ 52,941 (including interest) for 1977 income taxes in respect to the expropriation of the Julienne Lake deposit. The Company is contesting this assessment and no provision has been made in the financial statements.

A reconciliation of income taxes calculated at applicable statutory rates in Canada is as follows:

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 20)	<u>1982</u> (unaudited) (restated) (Note 20)
Income before minority interest and extraordinary items	\$7,544,763 =====	\$5,656,695 =====	\$ 948,257 =====
"Computed" taxes at statutory rates	\$3,734,657	\$2,395,328	\$ 476,973
Increase (Decrease) in taxes			
Non deductible:			
Newfoundland escalation taxes	1,097,077	787,708	542,506
Newfoundland mining taxes	1,038,402	763,269	514,805
Crown royalties	268,300	257,400	188,316
Provision on minerals rights	19,815	32,795	347,340
Amortization and depreciation	294,656	249,963	301,160
Non taxable dividends	(162,421)	(111,462)	(83,275)
Tax deductible:			
Resource allowance	(1,777,315)	(1,296,400)	(915,814)
Other - Net	(24,913)	(122,244)	(392,962)
Current Income tax provision	\$4,488,258 =====	\$2,956,357 =====	\$ 979,049 =====

Note 14

Deferred Income Taxes

Deferred income taxes arise primarily from a timing difference in recognizing interest recorded on income tax refunds for income tax calculations and accounting purposes. Deferred taxes also arise from the timing difference between accounting and income tax values of oil and gas producing properties, production and other equipment, and eligible capital expenditures.

Contingent liabilities and litigation(a) S E C v. Javelin International Limited et al.

In 1974, a permanent injunction was issued by a U.S. District Court in settlement of an action instituted in 1973 by the Securities and Exchange Commission ("SEC") against the Company, John C. Doyle and William M. Wismer. The judgment enjoins the Company from violating section 17 of the Securities Act 1933 and section 10 (b) of the Securities Exchange Act of 1934. The judgment also contains provisions concerning the "independence" of the directors, and the maintenance of a compliance committee responsible to verify the information to be disclosed to the public and the SEC, an information officer and a special counsel to the committee. In 1979, the U.S. District Court issued another injunction against the Company enjoining it from filing late reports with the SEC. The Company consented to the issuance of these two orders, without admitting or denying the SEC's allegations.

In March 1983, as requested by the receiver-manager, the U.S. District Court issued an order amending the 1974 judgment for the duration of the receiver-manager's appointment. The amendment suspends the requirements concerning the election of "outside independent" directors, the maintaining of a compliance committee and the appointment of a public information officer and special counsel to the compliance committee; and requires the receiver-manager to perform the responsibilities of the compliance committee and public information officer. Upon the termination of the receiver-manager's appointment the amendment to the 1974 judgment will be null and void and the 1974 judgment will be in all respects as entered in July 1974. The amendment also provides that the Company shall promptly notify the SEC of any application to modify the April 7, 1982 order and that, upon the SEC's objection to such modification within 15 days, all provisions of the 1974 judgment as entered in July 1974 shall be automatically reinstated.

(b) Legal contestation of the validity of the Reversion Act
Julienne Lake Property

In 1960, the Company leased from NALCO properties extending over 1.29 square miles in the Julienne Lake area in Labrador for 99 years.

In 1975, the Newfoundland Legislature adopted an "act to provide for the reversion to the Province of certain mineral lands in Labrador known as the Julienne Lake Deposit and comprising approximately 1.29 square miles" (the Reversion Act). This law provided for the repossession of these properties by the Government of Newfoundland in

exchange for a maximum compensation of \$750,000. The amounts invested by the Company in these properties totalled \$3,549,271.

In 1978, the Company instituted an action seeking to have the Reversion Act declared unconstitutional by the Supreme Court of Newfoundland and to force the Government of Newfoundland to respect its obligations regarding the Julienne Lake Deposit. This action is still pending.

(c)

The Linerboard Project

In 1972, the Government of Newfoundland, (Newfoundland) acquired the assets of a paper mill project at Stephenville, Newfoundland, and the associated wood harvesting operations in Goose Bay, Labrador. Newfoundland has already paid \$6,600,000 to the Company and its subsidiaries. In addition, the Company is claiming \$3,779,334 plus interest from Newfoundland, under the acquisition contract which provides for arbitration as the means of resolving certain disagreements over the amounts to be paid. The additional amount claimed is related to expenses and advances made by the Company in connection with the project. Newfoundland has until now claimed that these expenses and advances were not reasonably necessary, or that they were excluded from the contract. The arbitration hearings were commenced in 1979 and are still in progress.

In the receiver-manager's opinion, the claim is meritorious, but as there is no assurance that the Company will recover the full amount, it has accordingly provided a \$ 700,000 allowance for possible uncollectability of the account .

In April 1982, the Company instituted proceedings in the Trial Division of the Supreme Court of Newfoundland claiming the amount of \$1,272,367 regarding issues which are not included in the claim currently pending before the arbitration board. This additional amount has not been recorded as a receivable.

(d)

The Government of Newfoundland v. Javelin International Limited

In 1979, Newfoundland brought an action against the Company in the Supreme Court of Newfoundland seeking royalties aggregating \$2,577,788 for 1976, 1977 and 1978, under the Government Javelin Taxation (Confirmation of Agreement) (Amendment) Act, 1960 (the "1960 Act"), with respect to shipments of iron ore concentrates from the Wabush Lake Mine during such years. In 1982, the Court rendered a judgment against the Company for the royalties of \$ 2,577,788. The Company has appealed the judgment. In 1982, Newfoundland brought an action against the Company in

the Newfoundland Supreme Court seeking royalties of \$ 4,782,165 for 1979 through 1981. The Company is contesting this action. Newfoundland has also demanded additional royalties aggregating \$4,971,693 for 1982, 1983 and 1984.

In separate actions, the Company sought a declaration that the Mining and Mineral Rights Tax Act, 1975, of Newfoundland, (the "1975 Act") was invalid and the reimbursement of all sums paid as a result of the imposition of the 20% tax under the 1975 Act. In 1982, the Supreme Court of Canada held that the 1975 Act was constitutional and that the amounts payable thereunder constituted direct taxation in the nature of income taxes. The Company has filed tax returns for the years 1975 through 1984 under the 1975 Act, claiming significant deductions and credits. In 1981 Newfoundland amended the 1975 Act to eliminate retroactively to 1975 the Company's claims for deductions of amounts the Company expended primarily for development of the Wabush Lake Mine prior to the enactment of the 1975 Act. Newfoundland made several reassessments with respect to the Company's tax obligations for the years 1975 to 1983, resulting in a refund to the Company in the amount of \$3,469,733. Newfoundland has informed the Company that it has unilaterally applied such refund towards the sums alleged by Newfoundland to be owed by the Company under the 1960 Act. In November 1984, the Company filed an action a Petition in the Newfoundland Supreme Court Trial Division, seeking, a declaration that the Company is either subject to payments under the 1960 Act or to payment of royalties under the 1975 Act but not both and in the alternative is claiming damages and repayment, in the alternative, of the amounts paid under the 1960 Act and those deducted under the 1975 Act in the amount of \$20,000,000 or those amounts assessed and collected by the government.

The Company has provided for the amounts claimed by Newfoundland which is reflected as a liability. The amount claimed by the Company in the amount of \$20,000,000 has not been recognized in its financial statements.

(e)

MacPherson v. Javelin International Limited

In 1976, a former director and officer of a subsidiary of the Company brought an action in the Quebec Superior Court seeking \$336,713 in damages for loss of office. In 1982, the Court awarded the plaintiff \$79,960 plus interest and the sum of \$1,000 per month for 149 months, commencing on April 1, 1982. The Company has filed an appeal in the Quebec Court of Appeal. This appeal is still pending. No amount has been provided in the financial statements.

(f) Bilan Realty Corporation et al. v. Javelin International Limited et al.

In 1976, an action in a U.S. District Court was brought by 29 purchasers of the Company's common shares against the Company, John C. Doyle and William M. Wismer alleging violations of the U.S. securities laws. This action has been terminated by the settlement that has been approved by the U.S. District Court and by the Quebec Superior Court. The Company has paid \$ 385,943 as the settlement, which has been recorded as an extraordinary item in the financial statements.

(g) Revenue Canada - John C. Doyle.

To secure an amount claimed by The Canadian Department of National Revenue (Revenue Canada) from John C. Doyle, Pavonia assigned in 1979 to Revenue Canada sufficient amounts from its rights to receive from Wabush Mines the payments (previously assigned by the Company to Pavonia) arising under the Javelin-Wabush Iron Contract. As of January 1982, the balance claimed by Revenue Canada from Mr. Doyle was \$339,376. Since the appointment of a receiver-manager in April 1982 no payments have been made to Revenue Canada. (see Note 1a).

(h) Claim By Pavonia S.A.

By letter dated August 5, 1982 to Javelin, someone purporting to act on Pavonia's behalf claimed a total amount U.S. \$30,069,856. The letter claimed that Pavonia's total direct losses due to Javelin's failure to pay various alleged commitments amount to U.S.\$10,234,640. A payment to Pole Investments Limited for the principle amount of \$500,000 for debentures issued by Javelin and guaranteed by Pavonia, and accrued interest and legal fees for the total amount of U.S. \$511,413 was included in the claim by Pavonia. The letter further alleged losses to Pavonia of U.S. \$9,927,116 arising from the necessity, resulting from Javelin's alleged failure to pay the specified commitments, of abandoning or writing off Pavonia's investments and advances to subsidiaries for the exploration and development of its mineral properties, and losses of U.S. \$9,908,100 from the loss to Pavonia of future tax free bond income and loss of business opportunities. The Receiver Manager believes that these claims are without merit and will contest any such claims if pursued by Pavonia (Note 2(a)).

(i) Consulting Contract - John C. Doyle

Under a 1975 consulting contract with John C. Doyle, guaranteed by the Company and Pavonia, S.A., Javelin Export

Limited, a subsidiary, is obliged to pay \$ 209,000 (U.S.) per year to Mr. Doyle, through to March 1985. However, the Quebec Superior Court orders appointing the receiver-manager and extending the terms of his appointment order the suspension of certain contracts and payments involving the Company and/or all subsidiaries controlled by Mr. Doyle himself (Note 1(a)). The Company has not recorded any amount for this contract in its financial statements.

(j) Assignment of Royalties - Banque Nationale de Paris (Panama).

As of December 31, 1981, Pavonia had a long-term loan payable to the Banque Nationale de Paris (Panama) for an amount of \$3,457,078. This loan was collateralized by an assignment of royalties from Wabush Mines (see Notes 1, 2(a) and 17).

In the letter dated August 5, 1982, this loan was purported to have been repaid by Pavonia and is included in the amount claimed by Pavonia (see Note 15h).

(k) Control of Pavonia S.A.

In August 1982, Javelin Export (Panama) Inc. ("Export"), not an affiliate of the Company, brought an action in Panama City, Panama against the Company seeking approximately U.S. \$605,000 allegedly based on an assignment by a Pavonia subsidiary of a U.S. \$605,000 claim against the Company for the payments made on the Company's behalf, by Javelin Export Limited (an affiliate) to Mr. Doyle under a consultancy agreement and for other services. In May 30, 1983, the court issued a default judgement against the Company for U.S. \$405,000, which it increased to U.S. \$714,000 on July 1983. Subsequently Export sought to collect the judgement by a judicial sale before the Panamanian court of Pavonia's capital stock held by the Company. In February 1984, the court issued an order that Export was the purchaser of Pavonia's capital stock for U.S. \$714,000 in satisfaction of the default judgement. Export was the only bidder in the sale. Javelin asked the court to review its decision and revoke the sale. The court granted the petition of the Company and the sale was revoked. Export appealed the decision before the Court of Appeal and the appeal was granted and the sale was confirmed. On the same date the Company filed an action against Export in Panama City seeking a nullification of Export's action and award against the Company, and the Pavonia shares were sequestered by the Court so that they would not be delivered to Export pending a resolution of the action. Export has contested the Company's receiver-manager's authority to institute legal proceedings against third parties on the Company's behalf. Export contestation of the appeal was dismissed by the Court. Export appealed

that decision and the appeal was dismissed. This action is pending.

In February 1984, the District Attorney of Panama, petitioned a court in Panama City to place Pavonia's assets under the administration of a court-appointed curator, under Panama's commercial code. Such action was requested by the Company, in accordance with a recommendation of the Restrictive Trade Practices Commission of Canada, and was authorized by the Quebec Superior Court in November 1983. An attorney in Panama City filed a petition with the court requesting the Court not to grant the District Attorney's petition alleging, among other things, that the Company is not Pavonia's sole shareholder. Upon the District Attorney's request the court appointed two public accountants to verify the facts alleged by the District Attorney. Pavonia's attorney has filed a writ claiming that Pavonia's constitutional rights had been violated. The writ was dismissed by the Court of Appeal and such decision was appealed to the Panama Supreme Court, in which the appeal was dismissed.

(1) Application by Raymond Balestreri.

In February 1984, Raymond Balestreri, former president of the Company made an application for an order that the Company pay the professional fees and disbursements of \$ 168,847 incurred by him with respect to the inquiry of the Restrictive Trade Practices Commission into the Company's affairs. This proceedings is still pending and no amount has been provided in the financial statements.

Note 16

Capital Stock

Under the Company's stock option plan, options granted were exercisable for five years after the date of the grant. Common shares were reserved for key personnel, officers and directors under the plan which expired in 1980.

Outstanding options at December 31 are described as follows:

<u>Expiry date</u>	<u>Options outstanding & exercisable Dec. 31, 1983</u>	<u>Options cancelled and expired during the year ended December 31, 1984</u>	<u>Options outstanding & exercisable Dec. 31, 1984</u>	<u>Exercise price per share</u>
August 1984	5,305	5,305	-	\$ 1.40
March 1985	58,878	15,913	42,965	1.55
	64,183	21,218	42,965	

=====

No options were exercised during 1984, 1983 or 1982.

Note 17.

Royalties

The Company receives royalties from Wabush Mines on iron ore shipped. These royalties are not to be less than \$3,250,000 annually.

Up to December 31, 1983, rates used to calculate these royalties were based on the published Lake Erie price of Old Range Non-Bessemer ore. In January 1984, the Lake Erie price of Old Range Non-Bessemer ore ceased to be published. Wabush Mines is of the opinion that the disappearance of this published price does not frustrate the agreement.

For the year ended December 1984, the Company received royalties varying between \$2.03097 and \$2.05355 per ton as calculated by Wabush Mines based on the published price of the Mesabi Non-Bessemer ore which according to them is equivalent to the former Lake Erie price of Old range Non-Bessemer ore.

The Company does not accept the computation of the royalty rate based on the published price of the Mesabi Non-Bessemer ore and is negotiating with Wabush Mines to review the interpretation or the application of the agreement. The company has recorded income based on this rate.

The Company is obligated to pay to Knoll Lake Minerals Limited (39.5% owned by the Company) a royalty of \$0.32 per ton on shipments from the Wabush Mines.

Knoll Lake Minerals Limited annually pays dividends equal to royalties received less expenses and income taxes. These dividends are recorded on the accrual basis.

Extraordinary items

Extraordinary items are made up as follows, net of income tax:

	1984	1983	1982
	<u> </u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
		<u>(Restated)</u>	<u>(Restated)</u>
Provision relating to investments in and advances to and associated companies (Note 2)	-	-	(\$3,515,789)
Provision relating to advances made to Pavonia S.A. from January 1, 1982 to April 7, 1982, less convertible debenture payable of \$500,000. (Note 2 and 15 (h))	-	-	(310,680)
Gain on settlement of debts (a)	-	555,000	247,122
Gain on sale of building, net of \$117,789 in income tax and of \$148,434 in minority interest	-	-	181,419
Loss on settlement of litigation, net of \$94,556 in income tax recovery (Note 15(f))	(291,387)	-	-
Gain on write off of amounts with non-consolidated subsidiaries	<u>93,964</u>	<u>-</u>	<u>-</u>
	<u>(\$197,423)</u>	<u>\$555,000</u>	<u>(\$3,397,928)</u>
	=====	=====	=====

(a) Settlement of Debts

The receiver-manager entered into negotiations with persons who claimed they were creditors of the Company for obligations incurred prior to his appointment. Consequently, in many instances, arrangements included gains on settlement of these debts. These gains are recorded as extraordinary items in the years during which such arrangements occurred.

Note 19

Restatement of prior period adjustments and corrections

The Company's financial statements have been retroactively adjusted for:

- (a) The settlement and agreement for all income tax litigation (See Note 13 for further details).
- (b) The Company settled a non resident tax dispute with Revenue Canada whereby the Company has recovered taxes previously recorded .
- (c) Correction of convertible debentures payable (See Note 2 (a) and 15 (h) for further details).
- (d) The Newfoundland escalation taxes have been corrected in the applicable years to reflect the necessary adjustment required for the Company to calculate the taxes on the same basis as that used by Newfoundland and also to recognize as a prepaid expense the applicable escalation taxes on the stock pile of unshipped iron pellets.
- (e) Change in reporting entities (See Note 2(a)(ii))
- (f) Settlement of mining taxes with the Government of Newfoundland (See Note 5)

Note 20

Differences in application of United States and Canadian Generally Accepted Accounting Principles(a) Net Income (loss) reconciliations

	<u>1984</u>	<u>1983</u> (unaudited) (restated) (Note 19)	<u>1982</u> (unaudited) (restated) (Note 19)
Income (loss) before extraordinary items per statement of income as determined in accordance with Canadian Generally Accepted Accounting Principles	\$2,771,845	\$2,541,544	\$ (461,657)
Add (Deduct):			
Gain on sale of building treated as extraordinary item under Canadian GAAP (Note 18)	-	-	181,419

Settlement of mining tax litigation with the government of Newfoundland treated as prior year's adjustment under Canadian GAAP (Note 5)	-	-	646,632
Settlement of income tax litigation including interest and income tax treated as prior year's adjustment under Canadian GAAP (Note 13)	1,334,985	-	(1,599,826)
Adjustment in respect of deferred liability under individual retirement agreements	<u>-</u>	<u>8,508</u>	<u>250,644</u>
Income (loss) before extraordinary items as determined in acc- ordance with United States GAAP	\$4,106,830	\$2,550,052	\$(982,788)
Extraordinary items (Note 18)			
Provision relating to investments in and advances to assoc- iated companies	-	-	(3,515,789)
Provision relating to advances made to Pavonia S.A. from January 1,1982 to April 7,1982, less convertible debent- ures payable(Note 2 and 15h)	-	-	(310,680)
Settlement of debts	-	555,000	247,122
Loss on settlement of litigation (Note 15f)	(291,387)	-	-

Gain on write off of advances from non consolidated sus- sidiaries treated as an extraordinary item under Canadian GAAP. (Note 18)	<u>93,964</u>	<u>-</u>	<u>-</u>
Net income (loss) as determined in acc- ordance with United United States GAAP	\$3,909,407 =====	\$3,105,052 =====	\$(4,562,135) =====

Income (loss) per share
(per United States
GAAP)

Income (loss) before before extraordinary item	\$0.572	\$0.356	(\$0.137)
Extraordinary Items income (loss)	<u>(0.027)</u>	<u>0.077</u>	<u>(0.499)</u>
Net income (loss)	<u>\$0.545</u> =====	<u>\$0.433</u> =====	<u>(\$0.636)</u> =====

(b) Reconciliation of deficit

Deficit per statement as as December 31,1981 in accordance with Canadian GAAP as restate		\$(27,071,708)
(Add) deduct		
Decrease in parent company's interest in its subsidiary arising from issuance of capital stock by the subsidiary in 1973 (see 20c)		(419,350)
Liability under individual retire- ment agreement entered into before December 31,1981 recorded under United States GAAP (see 20d)		(589,409)
Settlement of income tax litigation with Government of Newfoundland treated as a prior year adjustment under Canadian		

GAAP (see Note 5)	(646,632)
Settlement of income tax litigation with Revenue Canada and Province of Quebec treated as a prior year adjustment under Canadian GAAP (see Note 13)	<u>1,599,826</u>
Deficit as at December 31, 1981 in accordance with United States GAAP as restated	\$(27,127,273)
Net (loss) for 1982 in accordance with United States GAAP	<u>(4,562,135)</u>
Deficit as at December 31, 1982 in accordance with United States GAAP	\$(31,689,408)
Net income for 1983 in accordance with United States GAAP	<u>3,105,052</u>
Deficit as at December 31, 1983 in accordance with United States GAAP	\$(28,584,356)
Settlement of income tax litigation with Revenue Canada and the province of Quebec treated as prior years adjustment under Canadian GAAP (Note 13)	(1,334,985)
Termination of liability under individual retirement agreement (Note 20d)	330,257
Net Income for 1984 in accordance with United States GAAP	<u>3,909,407</u>
Deficit as at December 31, 1984 in accordance with United States GAAP	\$(25,679,677) =====

(c) In 1973, a Company's subsidiary issued capital stock to retire debt. The resulting effect to the change of the Company's interest in its resulting subsidiary as a result of the share issue was included in the determination of consolidated net income in 1973, which conformed with GAAP in Canada.

In accordance with United States GAAP, the increases in the parent Company's interest in its subsidiary arising from issuance of capital stock by the subsidiary would have increased capital surplus rather than being recorded as extraordinary income.

If United States GAAP had been followed, income and retained earnings as reported in 1973 would have been reduced by \$419,350 resulting in a loss of \$146,318 (\$0.02 per share) rather than income of \$273,032 (\$0.04 per

share) and capital surplus would have increased by \$419,350. Concomitantly, in statements for periods subsequent to 1973, if United States GAAP had been followed, consolidated retained earnings as stated would be decreased by \$419,350 and capital surplus would be increased by the same amount.

- (d) In accordance with GAAP in the United States, the present value of compensation arising from an individual retirement agreement would have been accrued by the end of the individual's active period of employment. Under GAAP in Canada, the retirement agreement may be accounted for as a commitment and the compensation under agreement would be considered an expense when paid. The individual retirement agreement was terminated through litigation during 1984 and recorded as an expense in the financial statements.

Note 21

Segmented information

The Company's classes of business (principle segments by sources of income) are :

Iron ore - royalties
Oil and gas - sales and royalties
Javelin-Wabush Iron Contract
Dividends, interest and other

The Company's principal activities are conducted in Canada, therefore no segmented information was provided by geographical location.

	<u>Gross Revenue</u>	<u>1984 Operating Profit</u>
Iron Ore Royalties	\$ 12,673,491	\$ 5,683,390
Oil & Gas Sales and Royalties	2,363,308	1,229,309
Javelin-Wabush Iron Contract	1,525,229	1,565,354
Dividends Interest & others	<u>1,565,354</u>	<u>1,565,354</u>
	<u>\$ 18,127,382</u>	<u>\$ 10,003,282</u>
	=====	

Less common charges:	
Administration and general	\$ 2,105,072
Fees paid to receiver- manager fees	253,269
Investment & advances written off	100,178
Loss on sale of Property	-
	<u>\$ 2,458,519</u>
Income before income taxes minority interest and extra- ordinary item	\$ 7,544,763 =====

	<u>Identifiable Assets</u>	<u>Depreciation & Amortization</u>
Iron ore - royalties	\$ 6,022,803	\$ 600,597
Oil and gas - sales and royalties	1,704,191	227,400
Javelin-Wabush Iron Contract	6,589,818	
Dividends, interest and other	<u>11,166,369</u>	
	\$ 25,483,181	\$ 827,997
Identifiable assets with no specific source of income	<u>13,681,631</u>	<u>742</u>
Total Assets	<u>\$ 39,164,812</u> =====	<u>\$ 828,739</u> =====

	1983 (unaudited) (restated)	
	<u>Gross Revenue</u>	<u>Operating Profit</u>
Iron Ore Royalties	\$ 10,847,371	\$ 4,797,875
Oil and Gas Sales and Royalties	1,520,454	818,111
Javelin-Wabush Iron Contract	1,330,959	1,330,959
Dividends, interest and others	<u>1,257,475</u>	<u>1,257,475</u>

	\$ 14,956,259	\$ 8,204,420
	=====	
Less common charges		
Administration and		
general		\$ 2,243,189
Fees paid to receiver-		
manager		304,536
		<u>\$ 2,647,725</u>
Income before income taxes		
minority interest and extra-		
ordinary item		\$ 5,656,695
		=====

	Identifiable Assets	Depreciation & Amortization
Iron ore royalties	\$ 6,455,266	\$ 600,597
Oil and gas sales		
and royalties	1,034,255	15,844
Javelin-Wabush Iron		
Contract	6,493,022	
Dividends, interest		
and other	<u>2,169,353</u>	
	\$ 16,151,896	\$ 616,441
Identifiable Assets		
with no specific		
source of income	<u>13,606,819</u>	<u>1,076</u>
Total Assets	<u>\$ 29,758,715</u>	<u>\$ 617,517</u>
	=====	=====

	1982 (unaudited) (restated)	
	Gross Revenue	Operating Profit
Iron Ore Royalties	\$ 6,367,436	\$ 1,995,887
Oil Gas Sales and		
Royalties	1,319,319	510,522
Javelin-Wabush Iron		
Contract	793,632	793,632
Dividends, Interest		
and others	<u>1,169,779</u>	<u>1,169,779</u>

	\$ 9,650,166 =====	\$ 4,470,420 <u> </u>
Less common charges		
Administration and general		\$ 3,183,737
Fees paid to receiver manager		338,424
Investment and advances written off		- <u>\$ 3,522,163</u>
Income before income taxes minority interest and extra- ordinary item		\$ 948,257 =====

	<u>Identifiable Assets</u>	<u>Depreciation & Amortization</u>
Iron ore royalties	\$ 5,635,605	\$ 600,597
Oil and gas sales and royalties	1,032,587	14,125
Javelin-Wabush Iron Contract	6,002,508	
Dividends, Interest and other	1,295,629	
	<u>\$ 13,966,329</u>	<u>\$ 614,722</u>
Identifiable assets with no specific source of income	<u>12,671,435</u>	<u>1,724</u>
Total Assets	<u>\$ 26,637,764</u> =====	<u>\$ 616,446</u> =====

