

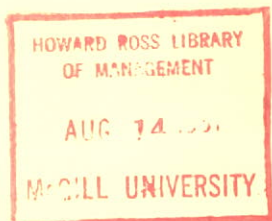
CANADIAN JAVELIN



LIMITED

1980

ANNUAL REPORT



Canadian Javelin Limited

Canadian Javelin Limited, a Canada corporation, and its subsidiaries are engaged principally in the business of locating and developing mineral and other natural resources in various parts of the world. The Corporation and its subsidiaries own various properties, some of which are being mined and producing revenues and some of which are in various stages of exploration or development.

CANADIAN JAVELIN



LIMITED

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Directors' Report to Shareholders

Dear Shareholder:

Your Company has improved its position during the last year: first by increasing its reported net income to \$1,486,606 or 20.7 cents per share, compared to net income of \$13,838 for 1979; second, by achieving a substantial reduction in its past tax assessments thereby reducing its potential liabilities; third, by increasing its indicated and potential reserves of gold and silver ores in Central America in the face of extensive civil unrest prevalent in the region.

Exploration activities have continued in Latin America under Pavonia, S.A., Javelin's Panamanian subsidiary. These geological activities have been carried out in Honduras, Uruguay, Argentina, Peru, Bolivia and Ecuador. Negotiations with the respective Governments are in progress seeking agreements under which further detailed exploration of mineralized areas of interest will be carried on under international standards, providing the Company with subsequent rights to mine the property if exploitation is deemed economic, as well as a fair return, both to the country involved and your Company.

In the Republic of Honduras, necessary favourable feasibility studies have been received from the independent mining consultants, Wright Engineering of Vancouver. In addition, a consultant retained by the Company, from a panel suggested by that Government, has reported favourably on your Company's proposal to establish a silver-gold mining and milling facility for its Moramulca properties, and a refinery to be located in that country to process its own ore and other regionally mined precious metals. The first phase of the program has commenced, being negotiations for an agreement with the Government covering

the terms and conditions of the implementation, with a possible Government participation in the industrial refining phase proposal. Shareholders will be informed as negotiations are completed.

Exploration activities delayed for several years because of unsettled conditions have been reactivated in Ethiopia and the Company's office reopened. The objective is to expand the known substantial nickeliferous laterite deposits on the Company's mining concession in the Department of Sidamo. The Company's program has been approved by the Government of Ethiopia, and is expected to continue during 1981.

Your Company has also through Pavonia, S.A., completed studies envisioning the establishment of specialized French bakeries in the United States employing new French equipment. The pilot unit has been installed in Miami, Florida and is now operational.

In Canada, your Company remains active in Newfoundland principally pursuant to metal exploration agreements with BP Minerals Limited, an affiliate of BP Canada, Noranda Exploration Company, Limited, and Hudson's Bay Oil and Gas Company Limited, all recognized and experienced exploration and mining companies. Agreements with said companies provide for a significant participation by your Company with the respective company involved in each such agreement should a mining lease be obtained in the area.

The Wabush Mine produced less iron ore than anticipated in 1980, due to distressed conditions in the world steel industry, but estimated production for 1981 is 5,400,000 tons. Whether that goal will be

achieved depends upon market conditions and needs, and labour conditions. Although the labour contract for mine workers expired in March 1981, mining operations are continuing and contract negotiations are underway. Arbitration of the sums your Company claims as due under the Linerboard acquisition contract is continuing and appears to be in its final phase.

Overall, litigation was reduced in comparison with the previous year. Differences with the Province of Newfoundland arising out of nationalization of the Julienne iron ore deposits and questionable taxes continue to be the subject of actions by both parties. Legal action is continuing in the Ontario courts seeking control of Bison Petroleum & Minerals Limited, and Dominion Jubilee Corporation Limited. Discoveries are almost completed and it is expected the case will be scheduled for trial in the near future.

The reduction of the tax assessments of Revenue Canada resulted from recognition by the Department of certain legal positions presented by the Company. Discussion with the representatives of the Department on other presentations to Revenue Canada will continue with respect to other substantial claimed deductions. While it is impossible to predict whether the Department will accept the positions presented, acceptance by Revenue Canada could result in substantial reductions in assessments made. The Company intends to continue to vigorously contest the assessments in the discussions and negotiations with Revenue Canada, and if necessary, in the courts.

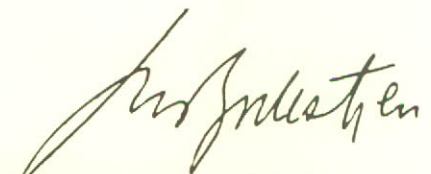
Due to the lower market prices for silver and gold the Company has altered its mining operation in El Salvador so as to

also mine by open pit methods. In recent months this method has provided approximately fifty percent of mill feed. Recent exploration has demonstrated the existence of surface mineral bearing structures extending in excess of five kilometers indicating sufficient potential reserves exploitable by open pit mining methods, rather than more expensive underground mining operations. By using open pit methods, the economic feasibility of operations is expected to continue, even during a period of decreased gold and silver prices. The Company also is in the process of installing sufficient diesel powered electrical generating capacity to make operations independent of interruptions in power normally obtained from the national power grid.

Your Company's common shares are now quoted on NASDAQ, (National Association of Securities Dealers Automated Quotation system) in the United States. Your Company's management believes that it is in the interest of all shareholders that they may trade in a regulated American market.

Respectfully submitted,

On Behalf of the Board of Directors,



Raymond Balestreri,
President

April 28, 1981

Consolidated Balance Sheet

as at December 31, 1980 and 1979

Assets	1980	1979
	(In Canadian Dollars)	
Current		
Cash	\$ 167,419	\$ 100,287
Accounts, Royalties and Other Receivable (Notes 3 and 16(b))	4,098,036	4,728,877
Mining Supplies — At Cost	389,209	301,594
Deposits and Prepaid Expenses	97,783	64,196
Current Portion of Bonds, Republic of Panama	704,873	630,774
	<u>5,457,320</u>	<u>5,825,728</u>
Long-Term		
Receivable Under Javelin-Wabush Iron Contract (Note 3)	17,915,617	19,003,396
Less: Unamortized Valuation Discount	(12,644,667)	(13,692,274)
	5,270,950	5,311,122
Balance Due re Sale of Linerboard Project Net of Allowance (Note 4) . . .	3,079,334	3,079,334
Investment in Julienne Lake Property Net of Allowance (Note 5)	750,000	750,000
Bonds, Republic of Panama, Less Current Portion (Note 6)	18,753,409	19,025,043
Deposits re Federal Income Tax Assessments (Note 11)	2,863,444	1,853,444
	<u>30,717,137</u>	<u>30,018,943</u>
Investment and Advances		
Non-Consolidated Subsidiaries (Note 7)	3,205,675	3,200,939
Associated Companies (Note 8)	3,115,975	3,154,192
	<u>6,321,650</u>	<u>6,355,131</u>
Fixed		
Property, Plant and Equipment — Net (Note 9)	1,269,314	842,772
Mineral Rights, Leases, Permits and Concessions Including Exploration and Development Costs (Notes 1(d) and 23)		
	<u>15,314,522</u>	<u>15,011,424</u>
Deferred Costs (Note 1(d))		
	<u>193,283</u>	<u>—</u>
	<u>\$ 59,273,226</u>	<u>\$ 58,053,998</u>

The Accompanying Notes Form an Integral Part of the Financial Statements.

Liabilities

1980 1979

(In Canadian Dollars)

Current

Bank Overdraft	\$ 153,211	\$ 292,525
Accounts Payable (Note 14 (d))	8,678,525	7,933,201
Payable to Shareholder (Including Current Portion of Long-Term Payable) (Note 22(b))	607,248	910,610
Current Portion of Long-Term Debt	1,632,756	1,401,720
Estimated Income Taxes Payable (Notes 11 and 17)	650,000	500,000
	<u>11,721,740</u>	<u>11,038,056</u>

Long-Term

Loans Payable (Note 10(a))	4,898,270	5,606,880
Other (Note 10(a))	—	4,090
	<u>4,898,270</u>	<u>5,610,970</u>
Less: Current Portion	1,632,756	1,401,720
	<u>3,265,514</u>	<u>4,209,250</u>
Payable to Shareholder (Note 22(b))	2,981,168	3,492,079
Less: Current Portion	500,000	500,000
	<u>2,481,168</u>	<u>2,992,079</u>

Convertible Debentures (Net of Unamortized Discount of \$41,250) (Note 10(b))	458,750	—
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Deferred — Advance Royalty	18,850	19,000
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Minority Interest	32,290	32,305
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Contingent Liabilities, Commitments and Other Matters

(Notes 11, 12, 14, 20, 21 and 22)

Shareholders' Equity

Capital Stock (Note 13)

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

Contributed Surplus (Note 10(b))	45,000	—
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Deficit	(1,342,873)	(2,829,479)
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	<u>41,294,914</u>	<u>39,763,308</u>
	<u>\$ 59,273,226</u>	<u>\$ 58,053,998</u>

On Behalf of the Board of Directors

Raymond Balestreri,
Pierre Warren

Consolidated Statement of Retained Earnings (Deficit)

for the years ended December 31, 1980, 1979 and 1978

(In Canadian Dollars)

Retained Earnings — December 31, 1977 as previously reported	\$ 3,118,113
Add: Capital Surplus arising from redemption of preferred shares (Note 19)	588,860
Retained Earnings — December 31, 1977 — As Restated	3,706,973
Net loss for 1978	(6,550,290)
Deficit — December 31, 1978 — As Restated (Note 19)	(2,843,317)
Net Income for 1979	13,838
Deficit — December 31, 1979 — As Restated (Note 19)	(2,829,479)
Net Income for 1980	1,486,606
Deficit — December 31, 1980	<u>\$(1,342,873)</u>

Consolidated Statement of Operations

for the years ended December 31, 1980, 1979 and 1978

1980 1979 1978

(In Canadian Dollars)

	1980	1979	1978
Revenue			
Gross Royalties Earned on Iron Ore (Note 16)	\$ 8,267,644	\$ 8,625,799	\$ 6,273,679
Sales of Bullion	5,375,442	3,399,472	1,853,752
Interest and Other	1,598,837	1,651,802	1,660,205
Javelin-Wabush Iron Contract (Note 3)	1,047,608	1,103,287	806,119
	<u>16,289,531</u>	<u>14,780,360</u>	<u>10,593,755</u>
Cost and Expenses			
Direct Cost of Royalties Earned —			
Amortization (Note 1(d))	600,597	600,597	623,081
Provincial Royalties and Taxes	2,745,496	2,680,632	1,839,504
Royalties — Knoll Lake Minerals Limited (Note 16)	1,280,448	1,446,309	1,155,018
	<u>4,626,541</u>	<u>4,727,538</u>	<u>3,617,603</u>
Cost of Sales	3,374,409	2,208,626	1,735,855
Administrative and General	4,726,399	5,413,544	6,221,977
Interest and Discount on Long-Term Debt	1,387,912	1,481,619	1,034,039
Interest — Other	71,054	128,402	19,123
Depreciation	120,742	125,948	101,307
Exploration Costs Written Off	19,802	241,540	173,120
Investments and Advances Written Off	—	52,963	—
	<u>14,326,859</u>	<u>14,380,180</u>	<u>12,903,024</u>
Operating Profit (Loss)	<u>1,962,672</u>	<u>400,180</u>	<u>(2,309,269)</u>
Other Income (Loss)			
Equity in Affiliate's Loss	(116,515)	—	—
Gain (Loss) on Foreign Currency Conversion	290,449	(152,261)	1,120,931
Income (Loss) Before Income Taxes and Extraordinary Item	<u>2,136,606</u>	<u>247,919</u>	<u>(1,188,338)</u>
Estimated Provision for Income Taxes (Note 17)	650,000	500,000	500,000
Income (Loss) Before Extraordinary Item	<u>1,486,606</u>	<u>(252,081)</u>	<u>(1,688,338)</u>
Extraordinary Item (Note 18)	—	265,919	(4,861,952)
Net Income (Loss) for the Year (Note 15(a))	<u>\$ 1,486,606</u>	<u>\$ 13,838</u>	<u>\$ (6,550,290)</u>
Earnings (Loss) Per Share (Notes 1(e) and 15(a))			
Income (Loss) Per Share Before Extraordinary Item	\$ 0.207	\$ (0.035)	\$ (0.236)
Extraordinary Item	—	0.037	(0.678)
Net Income (Loss) for the Year	<u>\$ 0.207</u>	<u>\$ 0.002</u>	<u>\$ (0.914)</u>

The Accompanying Notes Form an Integral Part of the Financial Statements.

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1980, 1979 and 1978

	1980	1979	1978
	(In Canadian Dollars)		
Sources of Working Capital			
Funds From Operations			
Income (Loss) Before Extraordinary Item	\$ 1,486,606	\$ (252,081)	\$(1,688,338)
Charges (Credits) Not Affecting Working Capital:			
Depreciation and Amortization	829,953	855,613	782,062
Exploration Costs Written Off	19,802	241,540	173,120
Interest Due to Shareholder, Not Currently Payable	497,895	508,091	356,119
Foreign Exchange Loss (Gain) on Non-Current Items	(346,345)	218,351	(940,589)
Equity in Affiliate's Loss	116,515	—	—
Other	3,137	63,313	(9,482)
Total Provided From (Used In) Operations, Excluding Extraordinary Item	2,607,563	1,634,827	(1,327,108)
Extraordinary Item	—	265,919	(4,861,952)
Less: Not Affecting Working Capital	—	(265,919)	4,861,952
	—	—	—
Total Provided From (Used In) Operations	2,607,563	1,634,827	(1,327,108)
Issue of Convertible Debentures & Warrants	500,000	—	—
Redemption of Bonds, Republic of Panama	690,360	632,016	593,000
Increase in Long-Term Debt	585,000	—	2,298,000
Reduction on Receivable Under Javelin-Wabush Iron Contract	40,172	34,620	21,004
Disposal of Property, Plant and Equipment	—	324,282	—
Other	—	77,277	1,000
	4,423,095	2,703,022	1,585,896
Uses of Working Capital			
Deposits re Federal Income Tax Assessments	1,010,000	392,364	1,461,080
Acquisition of Fixed Assets	561,762	147,455	360,848
Increase in Mineral Rights and Exploration Costs	1,019,057	717,332	978,419
Reduction in Long-Term Payable to Shareholder	1,008,806	527,931	477,363
Reduction of Long-Term Debt	1,603,227	1,497,911	1,580,650
Deferred Costs	193,283	—	—
Other	79,052	25,146	18,272
	5,475,187	3,308,139	4,876,632
Increase in Working Capital Deficiency	(1,052,092)	(605,117)	(3,290,736)
Working Capital Deficiency — Beginning of Year	(5,212,328)	(4,607,211)	(1,316,475)
Working Capital Deficiency — End of Year	\$(6,264,420)	\$(5,212,328)	\$(4,607,211)
Changes in Components of Working Capital			
Current Assets			
Cash	\$ 67,132	\$ (463,365)	\$ (298,872)
Accounts, Royalties and Other Receivable	(630,841)	1,441,145	(764,070)
Mining Supplies	87,615	(143,550)	109,671
Deposits and Prepaid Expenses	33,587	24,919	12,886
Current Portion of Bonds, Republic of Panama	74,099	37,774	89,760
Increase (Decrease) in Current Assets	(368,408)	896,923	(850,625)
Current Liabilities			
Bank Overdraft	139,314	(275,166)	16,675
Accounts Payable	(745,324)	(813,726)	(2,106,326)
Liability Arising from Litigation Settlement	—	—	796,752
Bank Loan	—	118,600	(9,200)
Current Portion of Long-Term Debt	(231,036)	178,862	(638,012)
Estimated Income Taxes Payable	(150,000)	200,000	(500,000)
Payable to Shareholder	303,362	(910,610)	—
(Increase) Decrease in Current Liabilities	(683,684)	(1,502,040)	(2,440,111)
Increase in Working Capital Deficiency	\$(1,052,092)	\$(605,117)	\$(3,290,736)

The Accompanying Notes Form an Integral Part of the Financial Statements.

Notes to Consolidated Financial Statements

December 31, 1980

Unless the context otherwise requires, "Javelin" means Canadian Javelin Limited and "Company" means Javelin and all its Subsidiaries. "Subsidiaries" means a corporation of which more than 50% of the outstanding voting stock is directly or indirectly owned by Javelin.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Javelin and all of its subsidiaries, except for Bison Petroleum & Minerals Limited (a 61% owned subsidiary) for reasons explained in Note 14(h). The investment in shares of Bison Petroleum & Minerals Limited is carried on the cost basis adjusted by the Company's share of losses since acquisition to December 31, 1976 amounting to \$496,353 and impairment in value subsequent to December 31, 1976 in the amount of \$406,030. Intercompany accounts, transactions and profits have been eliminated in consolidation.

(b) Foreign Currency Translation

The method of accounting for foreign currency translation is that foreign inventories stated at cost, property, plant and equipment, and mineral rights, leases, permits and concessions including exploration and development costs are translated at historical rates; receivables and payables are translated at current rates. Exchange gains and losses are given immediate recognition in the statement of operations. The foreign exchange conversion rates of U.S. dollars were as at January 1, 1978 \$1.094, December 31, 1978 \$1.186, December 31, 1979 \$1.168, and December 31, 1980 \$1.195.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated primarily on straight line method.

(d) Amortization

(i) Mineral Rights, Leases, Permits and Concessions Including Exploration and Development Costs

The costs of 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 will be amortized by charges to income over the estimated useful life of the property.

Unamortized expenses on mineral leases of the Wabush project amounting to \$5,906,450 (\$6,507,048 in 1979) are being amortized on the straight line basis over 25 years.

Unamortized exploration and development expenses of Minas San Cristobal, S.A., a subsidiary, of \$37,272 (\$97,361 in 1979) are being amortized through 1981. Deferred mine expenses of Minas San Cristobal, S.A., of \$15,443 (\$40,631 in 1979) are being amortized over a two year period.

(ii) Deferred Costs

Deferred costs of \$193,283 relating to a newly organized subsidiary, Ovens of France (Fours de France) Ltd. will be amortized on a straight-line basis over a five year period beginning in 1981.

(e) Earnings per Share

Earnings per share are calculated using the weighted average of common shares outstanding. Outstanding warrants, convertible debentures and options have no significant dilutive effect on earnings per share.

(f) Reconciliation to United States Accounting Principles

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

If the application of these principles differs significantly from generally accepted accounting principles in the United States, reconciliations are disclosed (See Note 15).

NOTE 2 RECLASSIFICATIONS

Certain amounts for 1979 and 1978 have been

reclassified to conform with the presentation of similar amounts in the 1980 financial statements.

NOTE 3 JAVELIN-WABUSH IRON CONTRACT

The balance results from the sale to Wabush Iron Co. Limited of 10% of the capital stock of Wabush Lake Railway Company Limited and 10% of the capital stock of Wabush Iron Co. Limited on January 30, 1959 and is payable as iron ore is shipped from the Wabush leased premises at the rate of \$0.24573 per ton as at December 31, 1980, (\$0.21239 at December 31, 1979), but not less than \$0.10 per ton shipped, nor less than

\$275,000 per year. If the Wabush Lease is cancelled by Wabush Iron Co. Limited, as it may do on 60 days' notice, no further payments thereon need be made, but the Mining Lease must be surrendered to Javelin, and if Wabush Iron Co. Limited defaults in making the required payment of any instalment, when due, and which default shall not be cured within 60 days of notice of default, it must also surrender to Javelin the title to, and possession of, all its buildings,

plant and machinery on the leased premises.

On December 31, 1977, Javelin recognized the profit on the sale of capital stock, calculated on the remaining minimum payments receivable discounted at 5% over 76.25 years. Previously profit was recognized as collected. The net profit adjustment of \$5,366,746 (\$0.75 per share) was included in income for 1977.

The unamortized valuation discount is taken into income as payments under the Javelin-Wabush

Iron Contract are received and for 1980 amount to \$1,047,608 (\$1,103,287 in 1979, \$806,119 in 1978) and is included in accounts, royalties and other receivable.

On June 5, 1978, Javelin assigned all payments under this contract to its wholly-owned subsidiary, Pavonia, S.A., to the extent necessary to secure the repayment of financing not in excess of \$5,000,000 (U.S.), plus interest thereon. (See Note 11).

NOTE 4 LINERBOARD PROJECT

The Company is claiming the sum of \$3,779,334 in addition to the \$6,600,000 already received under an agreement with the Province of Newfoundland whereby the Province acquired the linerboard mill project at Stephenville, and associated wood harvesting operation in Goose Bay.

The Province has denied the Company's claims. An arbitration of the Company's claims is in process and is expected to be completed in 1981.

The amount in dispute has been treated as a non-current asset. No provision has been made for any interest which might be awarded on the unpaid amount.

In the opinion of management and Company counsel, the claim is meritorious, but as there is no assurance that the Company will recover the full amount, it has accordingly provided an allowance for possible uncollectability of the account in the estimated amount of \$700,000.

NOTE 5 JULIENNE LAKE PROPERTY

In 1960, the Company leased the Julienne Lake iron ore deposit in Labrador for a period of 99 years. In 1975, Newfoundland passed an Act to provide for the reversion of the deposit to the Province for a maximum compensation of \$750,000. The Company's investment in the Julienne Lake property is \$3,549,271.

In 1978, the Company filed actions in the Supreme Court of Newfoundland seeking a declaration that the Reversion Act and The Mining and Mineral Rights Tax Act (See Note 21) are invalid, seeking performance by the Province of its obligations regarding the Julienne Lake Deposit, to enjoin the Province from using

confidential information furnished by the Company and from mining the iron ore in the deposit, reimbursement of all sums paid under The Mining and Minerals Rights Tax Act, and claiming damages for breach by the Province of its obligations. The actions are in the preliminary stage, and the amount of any recovery cannot be predicted.

Due to the uncertainty of the Company realizing its investment of \$3,549,271 in the Julienne Lake property, an allowance of \$2,799,271 was provided for in 1976, for the difference between the investment in the project and the maximum amount of consideration provided for in the Reversion Act.

NOTE 6 BONDS, REPUBLIC OF PANAMA

Under a 1975 agreement, the Republic of Panama acquired the Company's Cerro Colorado mineral rights and related assets for \$23,600,000 (U.S.). Of this amount, \$5,000,000 (U.S.) was paid in cash in 1975 and the balance of \$18,600,000 (U.S.) was paid by Panama's issuance of twenty year, 8% direct obligation bonds (tax free in Panama), receivable in quarterly payments of

varying amounts of principal and interest, no one of which is less than \$465,000 (U.S.) and no one of which is more than \$471,000 (U.S.) per quarter year in liquidation and payment of both principal and interest in full.

The bonds have been pledged as security for a bank loan (See Note 10(a)), and the convertible debentures issued in 1980 (See Note 10(b)).

NOTE 7 INVESTMENT AND ADVANCES IN NON-CONSOLIDATED SUBSIDIARIES

	1980	1979
Bison Petroleum & Minerals Limited — at cost (See Notes 1(a) & 14(h))	\$3,128,682	\$3,123,946
Other	76,993	76,993
	<u>\$3,205,675</u>	<u>\$3,200,939</u>

Notes to Consolidated Financial Statements (continued)

NOTE 8 INVESTMENT AND ADVANCES IN ASSOCIATED COMPANIES

	1980	1979
Dominion Jubilee Corporation Limited (including advances of \$398,302 and \$398,345 at December 31, 1980 and 1979, respectively) (See Note 14(h)) — carried at cost	\$2,407,812	\$2,380,493
Norlex Mines Limited (including advances of \$607,419 and \$568,446 at December 31, 1980 and 1979, respectively) (a) — carried on equity basis	689,680	767,223
Others (advances only)	18,483	6,476
	<u>\$3,115,975</u>	<u>\$3,154,192</u>

(a) Norlex Mines Limited's operations are in the exploratory stage and its principal assets consist of exploration rights and of accumulated exploration expenses related thereto. Of the 6,073,163 shares of Norlex Mines outstanding, 1,097,419 shares (18%) are held by the Company. In 1980, the Company has recognized \$116,515 as its equity in the loss of Norlex Mines Limited.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	1980	1979
Buildings and leasehold improvements	\$ 224,840	\$ 96,972
Machinery, equipment and rolling stock	834,038	601,835
Office, engineering and production equipment	817,342	710,276
	<u>1,876,220</u>	<u>1,409,083</u>
Less: accumulated depreciation and amortization	<u>(792,248)</u>	<u>(679,865)</u>
	1,083,972	729,218
Construction in progress	185,342	113,554
	<u>\$1,269,314</u>	<u>\$ 842,772</u>

NOTE 10 LONG-TERM DEBT

(a) Loans Payable	1980	1979
Banque Nationale de Paris (Panama)		
Interest at 3% over London Inter Bank Offer Rate (17 1/16% at December 31, 1980)	\$4,898,270	\$5,606,880
Other	—	4,090
	<u>4,898,270</u>	<u>5,610,970</u>
Less: Current Portion	<u>1,632,756</u>	<u>1,401,720</u>
	<u>\$3,265,514</u>	<u>\$4,209,250</u>

The Loan Payable is collateralized by an assignment of royalties from Wabush Mines (See Note 16) and by a portion of the bonds, Republic of Panama (See Note 6). Repayment to be made in instalments of \$441,667 (U.S.) in January and October each year (plus accrued interest to date of payment), \$91,667 (U.S.) in April each year (plus accrued interest to date of payment) and \$391,667 (U.S.) in July each year (plus accrued

interest to date of payment). The last payment is due in October 1983.

The Loan Payable matures as follows:

1981	\$1,632,756
1982	1,632,757
1983	1,632,757

(b) Convertible Debentures

On September 24, 1980, Javelin issued debentures, in the aggregate principal amount of \$500,000, which bear interest at the London Inter Bank Offer Rate plus three percentage points per annum, adjusted semi-annually. Interest is payable semi-annually. At December 31, 1980 the interest rate on the debentures was 15¾%. The principal amount is payable in full on September 24, 1983. The debentures are convertible, prior to September 25, 1983, into a maximum of 300,000 common shares of Javelin, at \$1.23 per share if conversion is made prior to September 25, 1981, thereafter at \$1.48 per share if conversion is made prior to September 25, 1982, and thereafter

at \$1.73 per share if conversion is made prior to September 25, 1983. In connection with the debentures, Javelin issued non-transferable warrants to purchase up to 300,000 additional common shares of Javelin at \$1.50 per share if the warrants are exercised prior to September 25, 1981, thereafter at \$1.75 per share if exercised prior to September 25, 1982, and thereafter at \$2.00 per share if exercised prior to September 25, 1983. All unexercised warrants will expire on September 24, 1983.

Of the \$500,000 received, \$455,000 was allocated to the debentures and \$45,000 to the warrants. The \$45,000 discount on the issuance of the \$500,000 debentures is being amortized on an annual basis over the term of the debentures. The amount attributable to warrants is reflected as contributed surplus.

A portion of the Government of Panama bonds held by the Company (See Note 6) is pledged as security for the debentures.

NOTE 11 CONTINGENT LIABILITIES

- (a) Revenue Canada has issued reassessments for Javelin's taxation years 1970 through 1974, but no tax was levied for 1970 through 1973 since deductions attributable to preproduction exploration expenses offset the inclusion of additional items of income for those years. Revenue Canada claims that Javelin's pool of preproduction exploration expenses has been exhausted and has disallowed \$1,870,850 for such expenses for 1974. For the five years in question, Revenue Canada included approximately \$5,200,000 of additional income of which \$2,900,000 is attributable to payments received by Javelin under the Javelin-Wabush Iron Contract (See Note 3). These payments had been treated by Javelin as non-taxable capital receipts. Additional items of income amounting to \$2,300,000 were attributable primarily to the disallowance of depletion claimed, and disallowance of royalties paid to the Newfoundland Government.

The tax assessed was \$1,212,743, plus interest of \$198,586 to November 21, 1977. In the event its objection, that payments under the Javelin-Wabush Iron Contract are non-taxable, is upheld, Javelin would have sufficient preproduction exploration deductions to offset the additional assessed income.

In May 1978, Javelin deposited \$1,461,080 with a trust company to be invested in an interest bearing time deposit as security for the 1974 tax assessment pending final resolution thereof. The interest realized on this deposit is remitted by the trust company to Revenue Canada to apply on Javelin's account and is not reflected in the financial statements pending outcome of the assessment.

In 1979, Javelin was assessed an additional \$233,612 for 1974 based primarily on a disallowance of a \$525,956 depletion deduction.

Javelin is contesting the 1974 assessment in the Federal Court of Canada.

- (b) In 1978, Revenue Canada assessed Javelin \$4,906,987 (\$634,348 for 1975, \$1,959,789 for 1976 and \$1,724,432 for 1977 plus accrued interest of \$588,418 to December 11, 1978). The assessments are based, in major part, on the
- (i) inclusion to taxable income of \$2,427,317

received under the Javelin-Wabush Iron Contract; and \$910,000 (1976) and \$640,311 (1977) as Foreign Accrual Property Income and (ii) disallowance of payments to the Province of Newfoundland under The Mining and Mineral Rights Tax Act 1975 (See Note 21) and Government-Javelin Taxation (Confirmation of Agreement) (Amendment) Act 1960 (See Note 14(d)); litigation settlements and costs of approximately \$1,900,000 (See Notes 14(a) and 14(b)) and other expenses.

Javelin is contesting these assessments with Revenue Canada and also maintains that it has available additional preproduction exploration expenses that could reduce Javelin's assessed taxable income.

In 1980, Revenue Canada reduced the amounts of these assessments by approximately \$1,700,000 (including the interest accrued to May 28, 1980).

In 1980 Revenue Canada assessed Javelin \$119,877 for withholding taxes (including penalties and interest), based on the disallowance of certain deductions claimed by Javelin in 1976, 1977 and 1979 totalling \$354,348.

The disallowed deduction represents amounts charged to Javelin by its subsidiaries for expenses paid on behalf of the Company by Mr. J. C. Doyle, and were virtually entirely included in the initial balance payable to Mr. Doyle under a 1979 agreement (See Note 22(b) (i)).

The federal assessments could possibly give rise to provincial tax assessments of approximately \$920,000. In such event Javelin's objection would be similar to those on the federal assessments.

- (c) In 1979, Revenue Canada issued a Notice of Assessment disallowing Javelin's claimed taxable loss of \$3,266,507 resulting in an assessed taxable income of \$100 for 1978. In November 1980, Revenue Canada issued a Notice of Assessment for 1979 in the amount of \$1,077,642 (plus interest of \$55,214) and disallowing Javelin's claimed taxable loss of \$993,706. Javelin is contesting the 1978 and 1979 assessments on issues similar to its objections to the 1975 - 1977 reassessments. (See Notes 11(a) and 11(b)).
- (d) Javelin has provided an amount of \$1,200,000 in respect of any liability that may result from the assessments described in Notes 11(a), 11(b) and 11(c). Javelin has provided \$650,000 in respect of
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Notes to Consolidated Financial Statements (continued)

estimated potential income tax liability for 1980 (See Note 17(a)). The total income and withholding taxes assessed through 1979, including interest thereon to December 1980, amount to \$6,985,265. After giving effect to amounts received by Revenue Canada under its agreements with Javelin regarding payments, the net amount of assessments including interest, unpaid as of December 1980 was \$4,046,773. In addition, the amount of \$1,461,080 remains on deposit (See Note 11(a)) which if released to Revenue Canada would reduce the unpaid balance by \$1,461,080.

The amounts paid to Revenue Canada and the amount on deposit with the trust company less the amount provided for 1974 to 1979 of \$1,200,000 are carried as assets in the financial statements. The Company considers that the amounts it has provided for income taxes are adequate, however, the amount of potential taxes, if any, for the years 1974 through 1979 cannot be determined at the present time.

- (e) In March 1979, Javelin reached agreement with Revenue Canada under which Revenue Canada will be secured for payment of the income tax assessments for the years 1975 to 1977, the \$233,612 additional assessment for 1974 (See Note 11(a) and 11(b)) as well as taxes which are assessed from year to year until all such taxes

are paid. The agreement provided that Javelin would deposit \$150,000 in March of 1979 and in addition for the fiscal years beginning January 26, 1979 would deposit with Revenue Canada the greater of: (A) \$1,300,000 in the first year, \$1,600,000 in the next three years and \$1,900,000 in the subsequent years or (B) \$500,000 in the first five years and \$1,000,000 in each succeeding year thereafter, plus an amount equal to its income tax required to be filed and fully paid during that year. Payments on the agreement are current with \$3,050,036 having been paid as at January 25, 1981.

The first \$500,000 payable in the first five years and \$1,000,000 in each succeeding year, is to be applied to taxes for the years already assessed (1975, 1976 and 1977). The balance in any year is then applied to the tax assessed for the previous calendar year and any remaining balance applied to 1975 to 1977 assessments.

The payment by Javelin under the agreement is secured by assignment of Javelin's rights under the Wabush Mine royalties (See Note 16) and secondly by payments under the Javelin-Wabush Iron Contract (See Note 3), as Pavonia, S.A. has waived the priority of its assignment under the Javelin-Wabush Iron Contract to the extent of \$500,000 per year.

NOTE 12 COMMITMENTS

- (a) Under a 1975 consulting contract with Mr. John C. Doyle, guaranteed by Javelin and Pavonia, Javelin Export Limited is obligated to pay \$209,000 (U.S.) per year to Mr. Doyle, through to March 1985.
- (b) Javelin has entered into individual retirement agreements with certain retired employees. Charges against operations are made in the year of payment. Benefits under these agreements

range from a fixed period to life, with a maximum total in any one year of \$12,000 (Cdn.) plus \$59,650 (U.S.) plus cost of living index increases in respect of one individual. Payments under these agreements amount to \$81,369 for 1980 (\$74,036 for 1979 and \$42,861 for 1978). Per actuarial valuation, the present value of the retirement benefits amounts to \$582,694 (See Note 15 for reconciliation with generally accepted accounting principals in the United States).

NOTE 13 CAPITAL STOCK

(a) Stock Options

Under Javelin's 1970 Stock Option Plan, 180,353 shares of the authorized capital stock were reserved for key personnel, officers and directors.

The plan expired on June 10, 1980, but options granted prior to expiration are exercisable for a period of five years after the date of grant.

Information as to the outstanding options at December 31, 1980 and 1979 is shown below:

OPTIONS OUTSTANDING AT DECEMBER 31, 1980

Expiry Date	NUMBER OF SHARES					
	Options Outstanding & Exercisable at December 31, 1979	Options Granted During the Year	Options Expired During the Year	Options Cancelled During the Year	Options Outstanding & Exercisable at December 31, 1980	Exercise Price per Share
May 1980	3,183	—	3,183	—	—	—
May 1981	3,183	—	—	1,061	2,122	\$1.91
May 1982	11,671	—	—	2,122	9,549	1.49
Aug. 1983	11,671	—	—	2,122	9,549	1.15
Aug. 1984	11,671	—	—	2,122	9,549	1.40
Mar. 1985	—	117,756	—	—	117,756	1.55
	<u>41,379</u>	<u>117,756</u>	<u>3,183</u>	<u>7,427</u>	<u>148,525</u>	

The number of shares available for granting of options at December 31, 1979 and 1980 was 138,973 and nil respectively.

No options were exercised in 1980, 1979 and 1978.

(b) **Convertible Debentures and Warrants** (See Note 10(b)).

NOTE 14 LITIGATION

(a) **Bonime v. Canadian Javelin Limited, John C. Doyle and William M. Wismer**

This class action in the United States District Court for the Southern District of New York was settled and the settlement amount was distributed.

(b) **Lurie, et al v. Canadian Javelin Limited, et al**

An action was filed in 1973, in the State Court in Illinois, on behalf of certain purchasers of Javelin's shares alleging violations of the Securities Act of 1933. In 1977, the court approved a settlement under which class members would receive settlement payments based on an agreed formula. In 1979, Javelin paid settlement sums totalling \$3,069 (U.S.) to claimants and claim trustee fees of approximately \$24,000 (U.S.). Still pending is Javelin's appeal from the court's award of \$100,000 (U.S.) as plaintiffs' counsel fees and the plaintiffs' motion seeking relief from the court's action (i) vacating its earlier order expanding the class of the plaintiffs in a manner which could increase the amount of the settlement sum by approximately \$305,000 (U.S.) for damages and (ii) denying request for \$115,000 (U.S.) as additional plaintiffs' counsel fees and discharging the claims trustee. Provision has been made in the financial statements for the \$100,000 (U.S.) awarded as counsel fees.

Also pending is an action filed in the Federal Court in Illinois on behalf of certain purchasers of Javelin's common shares, alleging violations of United States' securities laws. The settlement stipulation in the Lurie state action provides that upon approval of that settlement stipulation, plaintiffs will discontinue this action. The Federal Court stayed further proceedings in the case.

(c) **Bilan Realty Corporation, et al v. Canadian Javelin Limited, et al**

In 1976, this action in the Federal Court in New York was brought by 29 purchasers of Javelin's shares, naming Javelin and Messrs. Doyle and Wismer as defendants. The plaintiffs allege a scheme to inflate the price of Javelin's common shares. Javelin has denied the allegations of the complaint. Although the action has been pending for more than five years, only a slight

development of the plaintiffs' case has taken place. Javelin counsel is of the opinion that there is no merit to the claim.

(d) **Government of Newfoundland v. Canadian Javelin Limited**

In 1979, Newfoundland sued Javelin for additional royalties, with respect to the shipments of iron ore concentrates, of \$856,663 for 1976, \$992,153 for 1977 and \$728,971 for 1978, plus interest and costs. Provision has been made in the financial statements for these amounts. In the opinion of counsel the Company's defenses are meritorious but it is not possible to predict the outcome of the action. The Government of Newfoundland has made demands for additional royalties of \$1,413,910 for 1979 and \$1,420,220 for 1980 for which provision has also been made in the financial statements.

(e) **Pavonia, S.A. v. Bison Petroleum & Minerals Limited**

In 1978, a Panamanian Court annulled an agreement providing for the sale by Bison, of shares of Oltenia, S.A. to Pavonia, S.A. and ordered Bison to pay court costs to Pavonia of \$46,965 (U.S.). In 1978, an action was commenced in Ontario, titled Pavonia v. Bison, for recovery of \$46,965 (U.S.) which action was discontinued, but in 1979 the Court ruled that the discontinuance was without effect and permitted Bison to defend the action, counterclaim for \$475,000 and seek a declaration that the Panamanian Court's judgement was invalid. An application for leave to appeal from this order is pending.

(f) **Canadian Javelin Limited v. Bison Petroleum & Minerals Limited**

In 1977, Javelin sued Bison for \$827,070 representing Bison's share of the litigation costs and settlements paid by Javelin in respect to the Bonime and Lurie cases (See Notes 14(a) and 14(b)). Bison is defending the action.

(g) **Inquiry Under Canada Corporations Act**

In 1977, the Restrictive Trade Practices Commission of Canada, upon an ex parte application, ordered an inquiry into virtually all

Notes to Consolidated Financial Statements (continued)

the affairs of Javelin since its incorporation, and appointed a federal servant to conduct the inquiry. The inquiry is continuing and no report thereon has been made. Javelin is contesting in the courts the authenticity and scope of this inquiry and the conduct of the federal servant and his representatives in the course of the inquiry.

(h) **Bison Petroleum & Minerals Limited and Dominion Jubilee Corporation Limited**

(1) Pursuant to a judgement of the Supreme Court of Ontario, a court ordered special general meeting of shareholders of Bison Petroleum & Minerals Limited ("Bison") was convened and held on March 16, 1977, for the purpose of removing directors of Bison and electing a new Board of Directors to fill the vacancies thereby created. At the time of the court order, the Company was the beneficial owner of 2,587,287 of the 4,223,713 outstanding shares of Bison. The Company was also the beneficial owner of 1,786,585 of the 5,382,536 outstanding shares of Dominion Jubilee Corporation Limited ("Dominion Jubilee").

Pursuant to an agreement dated February 22, 1977, Bison agreed to purchase from Dominion Jubilee all of the outstanding shares of Jubilee Quebec Holdings Limited, in consideration for the issuance by Bison of 3,276,287 shares of the capital stock of Bison, being all the remaining authorized and unissued shares of Bison.

Concurrently with the aforesaid transaction, Bison entered into a second agreement with Dominion Jubilee whereunder Bison agreed to pay \$40,000 to Dominion Jubilee and to assume the indebtedness of Dominion Jubilee to Javelin in the amount of \$372,171 in exchange for the issuance by Dominion Jubilee to Bison of 2,100,000 shares of the capital stock of Dominion Jubilee.

The aforesaid transactions, if upheld by the courts, may result in the removal of control from the Company of Bison and Dominion Jubilee and the placing of the control of Bison and Dominion Jubilee in the hands of Dominion Jubilee and Bison, respectively. The Boards of Bison and Dominion Jubilee are controlled by the same persons, none of whom are significant shareholders in either Bison, Dominion Jubilee or Javelin.

Subsequent legal proceedings have been commenced by Javelin in the Supreme Court of Ontario seeking to cancel the transactions hereinabove referred to and for damages. Subsequent to the judgement of the Supreme Court of Ontario ordering a Bison meeting,

Bison instituted legal proceedings in the Supreme Court of Ontario seeking to cancel 1,440,000 shares of the capital stock of Bison issued in 1966 to Javelin under a contract. An ex parte injunction obtained by Bison on March 4, 1977, to prevent the voting of these shares at the March 16, 1977 Bison shareholders' meeting was not continued by the court after the hearing and the shares were voted without objection at the shareholders' meeting. It is the opinion of Javelin's counsel that Bison will not be successful in this action.

(2) In August 1977, Bison commenced an action in the Supreme Court of Ontario against Javelin, six of its Canadian directors, and its officers, alleging that the individual defendants conspired to bring vexatious proceedings against Bison and alleged that Javelin wrongfully interfered with an alleged contract between Bison and Pavonia, S.A., damages totalling \$679,902 and an injunction restraining the defendants from bringing further proceedings in Ontario, Quebec or the State of New York. The action is being contested.

(3) In August 1977, Javelin commenced actions, in the Supreme Court of Ontario, against Bison and Dominion Jubilee seeking to enjoin the annual meeting of shareholders of Bison scheduled for August 29, 1977, and the annual meeting of Dominion Jubilee, scheduled for August 30, 1977. The actions were based upon Javelin's allegations that Bison's and Dominion Jubilee's financial statements, auditor's reports, and information circular were false and misleading.

The court ordered the meetings to be adjourned indefinitely. The court has suspended the holding of the meetings pending a hearing on Javelin's request for an injunction.

(4) In December 1977, Javelin commenced an action in the Supreme Court of Ontario against Bison, Dominion Jubilee, William Wismer, and other directors and former directors of Bison and Dominion Jubilee, William B. Magyar and Technical Economists Limited, seeking a court declaration that the agreements of February 22, 1977 between Bison and Dominion Jubilee (See Note 14(h) (1)) and the issuance of shares pursuant to these agreements were null and void, injunctions restraining the voting, sale, or other disposition of the shares and seeking compensatory and punitive damages aggregating \$11,000,000 against all the defendants except Bison and Dominion Jubilee.

NOTE 15 DIFFERENCES IN APPLICATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

	1980	1979	1978
	(In Canadian Dollars)		
(a) Net Income (Loss) Reconciliation			
Income (Loss) before extraordinary item per statement of operations — as determined in accordance with Canadian Generally Accepted Accounting Principles (G.A.A.P.)	\$1,486,606	\$(252,081)	\$(1,688,338)
(Add) Deduct:			
Gain on sale of land and buildings treated as extraordinary item under Canadian G.A.A.P. (See Note 18)	—	265,919	—
Adjustment in respect of deferred liability under individual retirement agreements (See Note 12(b))	(27,472)	(36,201)	16,082
Liability under retirement agreement entered into during 1978	—	—	(230,490)
Exchange adjustment on retirement agreements	—	—	(38,865)
Income (Loss) before extraordinary item as determined in accordance with United States G.A.A.P.	1,459,134	(22,363)	(1,941,611)
Extraordinary item under United States G.A.A.P. (See Note 18)	—	—	(4,861,952)
Net Income (Loss) as determined in accordance with United States G.A.A.P.	<u>\$1,459,134</u>	<u>\$ (22,363)</u>	<u>\$(6,803,563)</u>

	1980	1979	1978
	(In Canadian Dollars)		
Income (Loss) per share (per United States G.A.A.P.)			
Income (Loss) before extraordinary item	\$ 0.204	\$ (0.003)	\$ (0.271)
Extraordinary item	—	—	(0.678)
Net Income (Loss)	<u>\$ 0.204</u>	<u>\$ (0.003)</u>	<u>\$ (0.949)</u>

(b) Reconciliation of Retained Earnings (Deficit)	
Retained earnings per statement of retained earnings (deficit) as at December 31, 1977 in accordance with Canadian G.A.A.P. as previously reported	\$ 3,118,113
Add: Capital surplus arising from redemption of preferred shares (See Note 19)	588,860
Retained earnings per statement of retained earnings (deficit) as at December 31, 1977 in accordance with Canadian G.A.A.P. — as restated	3,706,973
Less: Increase in parent company's interest in its subsidiary arising from issuance of capital stock by the subsidiary in 1973 (See Note 15(c))	(419,350)
Liability under individual retirement agreements entered into before December 31, 1975, recorded under United States G.A.A.P. (See Note 15(d))	(265,748)
Retained Earnings — December 31, 1977, in accordance with United States G.A.A.P. - as restated (See Note 19)	3,021,875
Net loss for 1978 in accordance with United States G.A.A.P. (See Note 15(a))	(6,803,563)
Deficit — December 31, 1978, in accordance with United States G.A.A.P. — as restated (See Note 19)	(3,781,688)
Net loss for 1979 in accordance with United States G.A.A.P. (See Note 15(a))	(22,363)
Deficit — December 31, 1979, in accordance with United States G.A.A.P. — as restated (See Note 19)	(3,804,051)
Net income for 1980 in accordance with United States G.A.A.P. (See Note 15(a))	1,459,134
Deficit — December 31, 1980, in accordance with United States G.A.A.P.	<u>\$(2,344,917)</u>

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

Notes to Consolidated Financial Statements (continued)

In accordance with G.A.A.P. in the United States, 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 G.A.A.P. of the United States 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 G.A.A.P. in the

United States 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 G.A.A.P. 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 G.A.A.P. in Canada, the retirement agreement may be accounted for as a commitment and the compensation under agreement would be considered an expense when paid.

NOTE 16 ROYALTIES

(a) Javelin receives royalties from Wabush Mines of \$0.75 per ton increased in direct proportion to the increase in the published Lake Erie price of Old Range Non-Bessemer ore, (\$1.87275 per ton at December 31, 1980, \$1.61613 per ton at December 31, 1979 and \$1.46771 per ton at December 31, 1978), but not less than \$3,250,000 annually. These royalties have been assigned to secure the bank loan (See Note 10) and the payment of tax assessments to Revenue Canada (See Note 11(e)).

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

Knoll Lake Minerals Limited pays annually, dividends equal to royalties received less expenses and income taxes. Javelin records the dividends on the accrual basis (1980 — \$248,499; 1979 — \$298,078; 1978 — \$236,614).

NOTE 17 INCOME TAXES

(a) (i) For the years ended December 31, 1980, 1979 and 1978 the income (loss) before provision for income taxes comprised of the following:

	1980	1979	1978
Canada	\$1,425,983	\$1,193,096	\$(1,956,146)
Foreign	710,623	(945,177)	767,808
	<u>\$2,136,606</u>	<u>\$ 247,919</u>	<u>\$(1,188,338)</u>

The provision for income taxes of \$650,000 for 1980, \$500,000 for 1979 and \$500,000 for 1978 all relate to Canadian income. The income or loss of foreign subsidiaries is not taxable nor tax deductible in foreign jurisdictions or in Canada.

(ii) Reconciliations of the income taxes, using the applicable statutory rates in Canada, to the recorded income tax expense for the years ended December 31, 1980, 1979 and 1978 are presented below:

	1980	1979	1978
Income Before Extraordinary Item			
Computed "expected" tax provision (recovery) applying the statutory combined federal-provincial rate			

	1980	1979	1978
of 50.5% (48% for 1979 and 1978)	\$1,080,000	\$ 119,000	\$ (570,402)
Increases (reductions) in taxes resulting from:			
Net (earnings) losses of subsidiaries and affiliates not (taxable) tax deductible	(147,236)	198,090	386,875
Excess amortization and depreciation not deductible for tax purposes	301,112	287,142	228,060
Allowance in respect of items similar to those described in Note 11	1,069,440	1,321,005	1,579,568
Non-taxable dividends	(125,616)	(143,077)	(113,575)
Non-taxable receipts under the Javelin-Wabush Iron Contract	(529,566)	(529,778)	(386,937)
Resource allowance	(851,287)	(825,467)	(585,542)
Currency translation	(146,847)	73,085	(538,047)

	1980	1979	1978
Provision in respect of additional liability from prior years tax assessments (See Note 11(d))	—	—	500,000
Income tax provision	\$ 650,000	\$ 500,000	\$ 500,000

Extraordinary Item

	1979	1978
Expected tax provision (recovery) by applying the statutory combined federal-provincial rate of 48%	\$ 113,241	\$(2,333,736)
Effects of (capital gain not taxable) capital loss not tax deductible	(113,241)	2,333,736
Income tax provision applicable to extraordinary item	\$ NIL	\$ NIL

(b) Deferred Income Taxes

The only significant item giving rise to timing differences between accounting income and taxable income is unamortized accumulated preproduction expenses. The amount of unamortized preproduction expenses for income tax purposes was in excess of the amounts recorded in the accounts of the Company. Deferred tax debits have not been recorded due to lack of virtual certainty of realizing these tax benefits in future years.

In the federal tax assessments, Revenue Canada claims that Javelin has a nil balance of unamortized preproduction expenses, in view of adjustments made by Revenue Canada (i) reducing prior years' accumulated unamortized preproduction expenses by an amount of \$6,947,080 and (ii) utilizing unamortized preproduction expenses in prior years due to inclusion of certain items in calculating taxable income for those years. Javelin is contesting these assessments and the adjustment reducing prior years' unamortized preproduction expenses. Javelin also maintains that it has an additional \$3,141,725 of exploration and development expenses which would be an addition to unamortized preproduction expenses of Javelin for income tax purposes. This amount has been written off for accounting purposes and would therefore eliminate any timing difference that may be created should Revenue Canada prevail (See Note 11).

(c) Loss Carry-Forwards

In its tax filings, Javelin is claiming \$9,900,000 of losses carry-forward to reduce future taxable income. If not utilized, the carry-forward would expire as follows:

1981	\$2,800,000
1982	1,900,000
1983	3,400,000
1984	1,000,000
1985	800,000

If Revenue Canada's position on the tax assessments were to prevail, the carry-forward would be eliminated (See Note 11).

NOTE 18 EXTRAORDINARY ITEM

	Extraordinary Income (Losses)	
	1979	1978
Gain on sale of Javelin House, St. John's, Newfoundland	\$265,919	—
Losses resulting from the write-off of "Nalco" properties (a)	—	\$(4,889,296)
Less: Minority's share	—	27,344
	\$265,919	\$(4,861,952)

- (a) As a result of the matters described in Note 20, the Company wrote off in 1978 a total amount of \$4,889,296 comprising of \$2,485,837 of mineral rights and exploration costs and \$2,403,459 of the excess of cost over book value of Javelin's investment in its subsidiary, Newfoundland and Labrador Corporation Limited (See Note 20).

NOTE 19 RESTATEMENT OF RETAINED EARNINGS (ACCUMULATED DEFICIT)

The capital surplus arising from redemption of preferred shares originally appropriated out of retained earnings in 1972 and previously shown separately on the consolidated balance sheet has

been credited to accumulated deficit because the Canadian statutory requirements to disclose it separately no longer exist. As a result, the December 31, 1977 retained earnings balance of \$3,118,113 has been increased by \$588,860 to \$3,706,973.

NOTE 20 NEWFOUNDLAND IMPOST ACT

In December 1978, a major portion of the mineral exploration concessions held under statutory agreements between Newfoundland, Javelin, and Newfoundland and Labrador Corporation Limited

("Nalco") (control of which was originally acquired from Newfoundland by Javelin for cash and additional considerations) were terminated in virtue of the Impost Act enacted by Newfoundland in 1978. In 1980 and 1979,

Notes to Consolidated Financial Statements (continued)

additional areas were surrendered. The Company is seeking damages from Newfoundland. The outcome of this claim is not determinable at this time.

Exploration rights covering approximately 651,467 acres (263,752 hectares) as well as all formal mining leases such as the Wabush Lake Mines Lease have been retained. The Act provides for a tax on areas held at annual rates escalating from \$1.15 per hectare in 1980 to \$3.00

per hectare by 1982. Portions of exploration areas retained are currently under exploration by B P Minerals Limited, Noranda Exploration Company, Limited, and Hudson's Bay Oil and Gas Company Limited (licensees of Nalco). The amounts expended for exploration by the Company and its licensees are applied in full in reduction of tax. As a result of these reductions and the surrenders of concession areas no tax has been payable.

NOTE 21 GOVERNMENT OF NEWFOUNDLAND

Javelin is seeking a declaration that The Mining and Mineral Rights Tax Act, 1975, is invalid and reimbursement of all sums paid as a result of the tax (See Note 5). In 1980, the Court of Appeal of Newfoundland held that the Act was valid. The Company has appealed the ruling to the Supreme Court of Canada.

In 1979, Javelin filed amended tax returns for the years 1975, 1976, 1977 and 1978 claiming substantial deductions and credits. The amount of tax recorded in the Company's financial statements for 1975 was \$546,368, for 1976 was \$1,048,661, for 1977 was \$1,186,920, for 1978 was \$976,610, for 1979 was \$1,376,483, and for 1980 is \$1,347,739. Should the position of Javelin be sustained, the amount of the taxes for said years

may be eliminated in whole or in part and Javelin will realize income to the extent the taxes are reduced, the amount of which is not determinable at the present time and therefore, Javelin has not recorded any amount in its financial statements for this potential recovery.

Newfoundland may seek to recover under The Mining and Mineral Rights Tax Act, 1975, an additional \$345,577 with respect to royalty payments made to Knoll Lake Minerals Limited during 1976, \$355,262 for 1977 and \$278,326 for 1978. In such event these amounts plus \$193,273 paid for 1975 would entitle Javelin to a refund from the amounts withheld and paid by Wabush Mines to Newfoundland under the Act. Thus, the liability has been duly recorded with an offset contra-entry.

NOTE 22 TRANSACTIONS WITH RELATED PARTIES

(a) Consulting contract with Mr. John C. Doyle (See Note 12(a)).

(b) (i) In 1979, Javelin, Javelin Export, Pavonia, S.A. and Mr. John C. Doyle, entered into an agreement providing for payment of the balance of \$3,011,918 owing to Mr. Doyle by Javelin Export as of December 31, 1978 plus accrued interest, as a result of an arbitration award. The agreement provides for payments of \$500,000 each on January 25, 1980, 1981 and 1982, with the balance, including all interest, to be paid in full on January 25, 1983. The indebtedness bears compound interest at the London Inter Bank Offer Rate (LIBOR) determined semi-annually (but no less than 9%) plus 3% per annum. At December 31, 1980 the interest rate on this indebtedness was $12\frac{1}{16}\%$.

To secure the balance of the amount claimed against him by Revenue Canada, Mr. Doyle in 1979 assigned \$1,989,376 of the Company's indebtedness to him to Revenue Canada; and in partial fulfillment of its obligation to

provide collateral security to Mr. Doyle, Pavonia assigned to Revenue Canada sufficient amounts from its rights to receive from Wabush Mines the payments (assigned by Javelin to Pavonia) arising under the Javelin-Wabush Iron Contract (See Note 3). The balance claimed by Revenue Canada from Mr. Doyle has been reduced to \$839,376 as of January 1981. In 1980, the Company paid \$508,806 to Mr. Doyle on the balance owed in addition to the \$500,000 paid under the agreement on January 25, 1980.

(ii) The current amounts of \$607,248 and \$910,610 payable to a shareholder (Mr. Doyle) as at December 31, 1980 and December 31, 1979 respectively, consist of \$500,000 payable in each year under the March 1979 agreement and \$107,248 (1980) and \$410,610 (1979) representing reimbursements of expenses and amounts paid by John C. Doyle on behalf of the Company plus interest at the LIBOR plus 3%. At December 31, 1980 the interest rate on the indebtedness was $12\frac{1}{16}\%$.

NOTE 23 MINING RIGHTS, ETHIOPIA

In 1972, the Company acquired a mineral concession under a mining lease agreement from the Government of Ethiopia. The cost of the mineral rights obtained and additional exploratory work performed since acquisition is \$4,427,763 at December 31, 1980, (\$4,299,471 at

December 31, 1979). The Company has explored at depth by pitting and has made new geochemical surveys, conducted metallurgical testing, mapping, and other exploration activities on the concession properties, and these surveys have indicated the presence of mineralized deposits that are being further explored to

determine their full extent with the objective of proving a commercial ore body.

Gregory Geoscience Limited, a geological consulting firm, has prepared reports regarding the earth/land satellite examinations conducted over the area held under the mining lease and certain adjacent areas held by the Company under a prospecting permit. The reports identified eight high priority areas with anomalies (in addition to three geological zones similar to others held by the Company explored previously that contained nickeliferous laterite deposits). Several secondary anomalies were also identified within the concession area. Civil conditions in the region remain unsettled. The

Company's proposed field work program has been approved by the Ethiopian Government and the Company is proceeding to carry out the program, however, there is no assurance that the follow-up work will disclose sufficient potential ore deposits to make exploitation economically feasible. Although the Company has not yet completed certain exploration activities required by the mining lease agreement, and the Ethiopian Government may have had the right to terminate the Company's interest, the Ethiopian Government has stated that the lease is in good standing and has extended the prospecting permit, and has agreed that in June 1981, it will extend its term for another year.

NOTE 24 SEGMENTED INFORMATION

Javelin's Board of Directors has determined, and recorded in its minutes, that the Company's classes of business (principal segments by source of income) are:

- Royalties
- Sales of bullion
- Interest and other
- Javelin-Wabush Iron Contract

The Company's principal activities are divided into the following geographical areas:

- Canada
- Central and South America
- Ethiopia

(a) Segments by Source of Income

	1980	
	Gross Revenue	Operating Profit
Royalties	\$ 8,267,644	\$ 3,641,103
Sales of bullion	5,375,442	1,445,662
Interest and other	1,598,837	1,598,837
Javelin-Wabush Iron Contract	1,047,608	1,047,608
	<u>\$16,289,531</u>	<u>7,733,210</u>
Less common charges:		
General corporate expense		4,291,770
Interest expense		1,458,966
Equity in affiliate's loss		116,515
Gain on foreign currency conversion		(290,449)
Exploration costs written off		19,802
		<u>5,596,604</u>
Income before income taxes and extraordinary item		<u>\$ 2,136,606</u>

	Identifiable Assets	Depreciation and Amortization
Royalties and Javelin-Wabush Iron Contract	\$17,830,229	\$ 603,905
Sales of bullion	2,036,847	100,066
Interest and other	20,096,498	1,781
Subsidiaries in the stage of exploration and development	12,988,002	15,587
	<u>52,951,576</u>	<u>\$ 721,339</u>
Investment and advances	6,321,650	
Total assets	<u>\$59,273,226</u>	

(b) Segments by Geographical Location

	1980	
	Gross Revenue	Operating Profit
Canada	\$ 9,315,252	\$ 4,688,711
Central and South America	6,974,279	3,044,499
	<u>\$16,289,531</u>	<u>7,733,210</u>
Less common charges:		
General corporate expense		4,291,770
Interest expense		1,458,966
Equity in affiliate's loss		116,515
Gain on foreign currency conversion		(290,449)
Exploration costs written off		19,802
		<u>5,596,604</u>
Income before income taxes and extraordinary item		<u>\$ 2,136,606</u>

	Identifiable Assets	Depreciation and Amortization
Canada	\$21,565,253	\$ 603,905
Central and South America	26,958,560	117,434
Ethiopia*	4,427,763	—
	<u>52,951,576</u>	<u>\$ 721,339</u>
Investment and advances	6,321,650	
Total assets	<u>\$59,273,226</u>	

*There is no gross revenue and operating profit attributable to Ethiopia.

Notes to Consolidated Financial Statements (continued)

(c) Segments by Source of Income

	1979	
	Gross Revenue	Operating Profit
Royalties	\$ 8,625,799	\$ 3,898,261
Sales of bullion	3,399,472	780,404
Interest and other	1,651,802	1,651,802
Javelin-Wabush Iron Contract	1,103,287	1,103,287
	<u>\$14,780,360</u>	<u>7,433,754</u>
Less common charges:		
General corporate expense		5,129,050
Interest expense		1,610,021
Loss on foreign currency conversion		152,261
Exploration costs and investment and advances written off		294,503
		<u>7,185,835</u>
Income before income taxes and extraordinary item		<u>\$ 247,919</u>

	Identifiable Assets	Depreciation and Amortization
Royalties and Javelin-Wabush Iron Contract	\$17,558,994	\$ 611,736
Sales of bullion	1,859,623	98,408
Interest and other	20,084,464	413
Subsidiaries in the stage of exploration and development	12,195,786	15,988
	<u>51,698,867</u>	<u>\$ 726,545</u>
Investment and advances	6,355,131	
Total assets	<u>\$58,053,998</u>	

(d) Segments by Geographical Location

	1979	
	Gross Revenue	Operating Profit
Canada	\$ 9,752,716	\$ 5,025,178
Central and South America	5,027,644	2,408,576
	<u>\$14,780,360</u>	<u>7,433,754</u>
Less common charges:		
General corporate expense		5,129,050
Interest expense		1,610,021
Loss on foreign currency conversion		152,261
Exploration costs and investment and advances written off		294,503
		<u>7,185,835</u>
Income before income taxes and extraordinary item		<u>\$ 247,919</u>

	Identifiable Assets	Depreciation and Amortization
Canada	\$21,288,197	\$ 611,736
Central and South America	26,139,305	114,809
Ethiopia*	4,271,365	—
	<u>51,698,867</u>	<u>\$ 726,545</u>
Investment and advances	6,355,131	
Total assets	<u>\$58,053,998</u>	

*There is no gross revenue and operating profit attributable to Ethiopia.

(e) Segments by Source of Income

	1978	
	Gross Revenue	Operating Profit
Royalties	\$ 6,273,679	\$ 2,656,076
Sales of bullion	1,853,752	(117,555)
Interest and other	1,660,205	1,660,205
Javelin-Wabush Iron Contract	806,119	806,119
	<u>\$10,593,755</u>	<u>5,004,845</u>
Less common charges:		
General corporate expense		6,087,832
Interest expense		1,053,162
Gain on foreign currency conversion		(1,120,931)
Exploration costs written off		173,120
		<u>6,193,183</u>
Loss before income taxes and extraordinary item		<u>\$(1,188,338)</u>

	Identifiable Assets	Depreciation and Amortization
Royalties and Javelin-Wabush Iron Contract	\$17,490,753	\$ 636,549
Sales of bullion	1,469,328	73,432
Interest and other	21,346,999	1,887
Subsidiaries in the stage of exploration and development	11,362,830	12,520
	<u>51,669,910</u>	<u>\$ 724,388</u>
Investment and advances	6,469,414	
Total assets	<u>\$58,139,324</u>	

(f) Segments by Geographical Location

	1978	
	Gross Revenue	Operating Profit
Canada	\$ 7,104,187	\$ 3,486,584
Central and South America	3,489,568	1,518,261
	<u>\$10,593,755</u>	<u>5,004,845</u>

			Identifiable Assets	Depreciation and Amortization
Less common charges:				
General corporate expense	6,087,832			
Interest expense	1,053,162			
Gain on foreign currency conversion	(1,120,931)	Canada	\$21,260,386	\$ 636,549
Exploration costs written off	173,120	Central and South America	26,153,830	87,839
	<u>6,193,183</u>	Ethiopia*	4,255,694	—
			<u>51,669,910</u>	<u>\$ 724,388</u>
Loss before income taxes and extraordinary item . . .	<u>\$(1,188,338)</u>	Investment and advances	6,469,414	
		Total assets	<u>\$58,139,324</u>	

*There is no gross revenue and operating profit attributable to Ethiopia.

(g) Capital Expenditures

In 1980, 1979 and 1978 the capital expenditures mainly relate to mining operations in Central America and South America.

Auditors' Report

To the Shareholders of
Canadian Javelin Limited

We have examined the consolidated balance sheet of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES, as at December 31, 1980 and 1979, the statements of operations, retained earnings (deficit), and changes in financial position for the years ended December 31, 1980, 1979 and 1978. Our examinations were made in accordance with Canadian generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, whose assets and revenues (exclusive of the investment in and revenue from the Panamanian Bonds) constitute 20% and 33% for 1980, 18% and 23% for 1979 and 17% and 18% for 1978 respectively, of the consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those subsidiaries, is based upon the reports of other auditors.

In our opinion, based on our examination and the reports of other auditors, these consolidated financial statements present fairly the financial position of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES at December 31, 1980 and 1979, the results of their operations and the changes in their financial position for the years ended December 31, 1980, 1979 and 1978 in conformity with generally accepted accounting principles prevailing in Canada applied on a consistent basis.

Montréal, Canada
March 19, 1981

ROSTON REINHARZ BRATT FREMETH
Chartered Accountants

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. 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 11 and 17 to the consolidated financial statements. The opinion in our report to shareholders dated March 19, 1981, does not qualify 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.

Montréal, Canada
March 19, 1981

ROSTON REINHARZ BRATT FREMETH
Chartered Accountants

Common Shares

The Common Shares are trading in Canada on the Vancouver Stock Exchange and in the United States in the over-the-counter market. The Common Shares are registered in the National Association of Securities Dealers Automated Quotation system ("NASDAQ").

Stock Prices and Dividend Information

Price Range of Common Shares*

	1979		1980	
	High	Low	High	Low
1st quarter	\$1.35	\$1.01	\$1.90	\$.89
2nd quarter	1.85	1.50	1.50	1.00
3rd quarter	1.65	1.50	2.75	1.35
4th quarter	1.30	.81	2.50	1.39

* The above prices represent trading in the Common Shares on the Vancouver Stock Exchange.

As of March 2, 1981, the approximate number of holders of record of the Common Shares was 11,957.

The Company, which is incorporated under the Canada Business Corporations Act, has never paid any cash dividends. The Canada Business Corporations Act provides that a corporation (subject thereto) shall not declare or pay a dividend if there are reasonable grounds for believing that

- (a) the corporation, is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes.

Selected Financial Data

	Year Ended December 31				
	1980	1979	1978	1977	1976
	(In Canadian Dollars)				
Selected Income Statement Data:					
Revenue:					
Gross Royalties Earned	\$ 8,267,644	\$ 8,625,799	\$ 6,273,679	\$ 7,710,910	\$ 6,969,602
Sales of Bullion	5,375,442	3,399,472	1,853,752	1,013,719	1,080,804
Interest and Other	1,598,837	1,651,802	1,660,205	1,566,176	1,569,004
Income Under Javelin-Wabush Iron Contract	1,047,608	1,103,287	806,119	1,016,345	917,883
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	—	—	—	5,366,746	—
Total Revenue	<u>\$16,289,531</u>	<u>\$14,780,360</u>	<u>\$10,593,755</u>	<u>\$16,673,896</u>	<u>\$10,537,293</u>
Income (Loss) From Continuing Operations Before Extraordinary Items (Note A) . . .	1,486,606	(252,081)	(1,688,338)	6,171,184	816,630
Income (Loss) Per Share* From Continuing Operations Before Extraordinary Items (Note A)	\$ 0.207	\$ (0.035)	\$ (0.236)	\$ 0.861	\$ 0.114

Selected Balance Sheet Data:

Total Assets	\$59,273,226	\$58,053,998	\$58,139,324	\$61,012,632	\$52,045,383
Long-Term Debt	6,205,432	7,201,329	8,802,240	7,539,025	3,805,651
Cash Dividends Per Share	NIL	NIL	NIL	NIL	NIL

NOTE (A)

	Year Ended December 31				
	1980	1979	1978	1977	1976
Income (Loss) from Continuing Operations Before Extraordinary Items in Accordance with Canadian G.A.A.P.	\$ 1,486,606	\$ (252,081)	\$ (1,688,338)	\$ 6,171,184	\$ 816,360
Add: Items Treated as Extraordinary Under Canadian G.A.A.P.	—	265,919	—	184,300	—
	<u>1,486,606</u>	<u>13,838</u>	<u>(1,688,338)</u>	<u>6,355,484</u>	<u>816,360</u>
Add (Deduct) Adjustments Required Under United States G.A.A.P.:					
Deferred Liability Under Individual Retirement Agreements	(27,472)	(36,201)	(253,273)	14,613	13,252
Settlement of Shareholder Claim	—	—	—	(1,293,517)	88,563
Income (Loss) from Continuing Operations Before Extraordinary Items in Accordance with United States G.A.A.P.	<u>\$ 1,459,134</u>	<u>\$ (22,363)</u>	<u>\$ (1,941,611)</u>	<u>\$ 5,076,580</u>	<u>\$ 918,175</u>
Income (Loss) per Share* from Continuing Operations Before Extraordinary Items in Accordance with United States G.A.A.P. . . .	\$ 0.204	\$ (0.003)	\$ (0.271)	\$ 0.708	\$ 0.128

*In the period for which income is reported, the dilutive effect of the outstanding convertible debentures, warrants and options would be less than 3%.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's gross revenue for 1980 increased by \$1,509,171 (10%) over 1979 and for 1979, increased by \$4,186,605 (40%) over 1978.

The 1980 gross revenue increase is primarily due to an increase in gold and silver sales of \$1,975,970 (58%) over 1979. The 1979 gold and silver sales increased \$1,545,720 (83%) over such sales for 1978. The increased gold and silver sales during 1980 and 1979 were primarily due to increased prices and for 1980 increased production. The increased gold and silver revenues were partially offset in 1980 and 1979 by lower grade of ore processed and in 1979 by lower production resulting from labour problems. While the Company is unable to predict future gold and silver prices, such prices have decreased since 1980.

In 1980, revenue from royalties on iron ore shipments decreased \$358,155 (4%) from 1979 primarily due to lower shipments of ore from Wabush Mines because of the recessionary decline in demand for steel. In 1979, revenues from ore shipped increased \$2,352,120 (37%) over 1978 which had lower shipments due to labour disputes.

The royalty rate on iron ore shipments increased to \$1.87275 per ton at the end of 1980 compared to \$1.61613 per ton at the end of 1979 and \$1.46771 per ton at the end of 1978, an increase for 1980, and 1979 of 16% and 10%, respectively. The Company's royalty rate increases or decreases (but not below \$0.75 per ton) proportionately with increases or decreases in the published Lake Erie price of Old Range Non-Bessemer ore. Shipments for 1980 were 4,777,959 tons compared to 5,451,210 tons in 1979 and 4,348,851 in 1978.

Revenue from the Javelin-Wabush Iron Contract decreased 5% in 1980 from 1979 and increased 37% in 1979 over 1978. Revenue from the Javelin-Wabush Iron Contract indicates the same trend as royalty revenues because both are based on shipments of ore from the Wabush Mines and on the Lake Erie Old Range Non-Bessemer price.

Based on information provided by Knoll Lake Minerals Limited, estimated production for 1981 is 5,400,000 tons. The labour contract for mine workers at the Wabush Mine expired in March 1981 and negotiations for a new labour contract are currently being conducted. Production at the Wabush Mine has continued during the negotiations.

Interest from Government of Panama Bonds decreased from \$1,399,300 (U.S.) for 1978 to \$1,357,111 (U.S.) for 1979 and \$1,318,500 (U.S.) for 1980 because of reduction in principal. Although annual payments on the bonds do not vary

substantially interest will continue to decline annually as the principal is reduced.

In 1980 operating expenses decreased by \$53,321 from 1979, which increased by \$1,477,156 (11%) over 1978.

Although gross royalties on iron ore shipments decreased in 1980, royalties and mining taxes payable to the Government of Newfoundland increased by \$64,864 (2%) over 1979 primarily due to the increase in royalty payable to the Government based on increases in the Lake Erie price of Old Range Non-Bessemer ore. In 1979 royalties and mining taxes payable to the Government of Newfoundland increased by \$841,128 (46%) primarily due to the increased royalty rate, and increased shipments of iron ore from the Wabush Mine.

Royalties are payable to Knoll Lake Minerals Limited at the rate of \$0.32 per ton of iron ore shipped from Wabush. Dividends received in virtue of the 39.5% of Knoll Lake's outstanding capital stock held by the Company are netted against this royalty. Because the \$0.32 per ton royalty is constant, the decrease of \$165,861 (11%) for 1980 from 1979 and the increase of \$291,291 (25%) for 1979 over 1978 results from a 1980 decrease and a 1979 increase in ore shipments.

In total, direct costs of royalties earned (including Newfoundland mining taxes) decreased by \$100,997 (2%) in 1980 from 1979, and increased by \$1,109,935 (31%) in 1979 over 1978.

Cost of sales attributable to the Company's mining activity in El Salvador increased in 1980 by \$1,165,783 (53%) over 1979 and by \$472,771 (27%) in 1979 over 1978. Cost of sales increased at a higher rate than production. Production cost increased because of inflationary conditions. Civil unrest continues in El Salvador and as a result production may be subject to interruptions.

Administrative and general expenses decreased by \$687,145 (13%) for 1980 from 1979, and by \$808,433 (13%) in 1979 from 1978; primarily due to decreases in professional fees and expenses, and the disposition of significant litigation. The Company's administrative and general expenses attributable to the continuing investigation of the Company under section 114 of the Canada Corporations Act was approximately \$427,000 (9%) for 1980, \$38,000 (.6%) for 1979 and \$83,000 (1%) for 1978. The Company cannot predict how long the investigation will continue or the costs it will require in the future.

Interest expense for 1980 decreased by \$151,055 (9%) from 1979 due to lower average indebtedness

and a temporary mid-year lower interest rate. Interest expense for 1979 increased by \$556,859 (53%) over 1978 due to increased interest rates and higher average indebtedness.

Gain or loss on foreign currency conversion results from fluctuation of the value of the Canadian dollar in relation to the U.S. dollar; because the Company has a net asset position in U.S. dollars and translates that net asset value to Canadian dollars at the rates prevailing at the end of each year.

Analyses of 1980, 1979 and 1978 income tax expenses are shown in Note 17, and Note 11 discusses 1970 through 1979 income taxes. Additionally, extraordinary items of gain and loss relating to the years 1979 and 1978 are discussed in Note 18. There was no extraordinary item for 1980.

Administrative and general expenses for 1980 under U.S. Generally Accepted Accounting Principles (G.A.A.P.) are increased by \$27,472 for 1980, by \$36,201 for 1979, and \$253,273 for 1978 over such expenses reported under Canadian G.A.A.P. due to the recording of actuarial adjustments in respect of deferred liabilities under individual retirement agreements entered into in previous years and, in addition in 1978, the recording of a deferred liability in respect of a retirement agreement entered into during 1978. (See Note 15(a)).

Capital Resources:

In 1980, the Company made capital expenditures of \$1,019,057 for exploration and development costs, and of \$561,762 for fixed assets, principally for the Company's Central American properties (including \$128,292 in respect to its Ethiopian property). The Company plans to expand its production, milling and smelting capacity in El Salvador and establish production facilities at its properties in Honduras. The estimated costs of the new installations are \$1,400,000 for El Salvador and \$3,600,000 for Honduras. The Government of Ethiopia has approved the Company's exploration program for the Ethiopian project, which is estimated to cost \$90,000 (U.S.). The Company intends to finance these projects by long-term borrowing, but it has no loan commitments.

Follow-up exploration programs in South America, particularly in Uruguay, Bolivia, Chile, Peru and Ecuador are expected to continue.

In 1980, through a newly organized subsidiary, Ovens of France (Fours de France) Ltd., the Company initiated in Miami, Florida, a bakery project for the production and sales of croissants and French bread. The unit is intended as a pilot operation, and dependent upon results, additional outlets in the

Miami or other areas may be established. The Company would seek to finance such outlets through equipment loans, other borrowings, funds generated from the project, and/or franchise agreements.

Liquidity:

The working capital deficiency totalling \$6,267,420 for 1980 and \$5,212,328 for 1979 represents an increase of \$1,052,092 for 1980 compared to an increase of \$605,117 for 1979. Principal reasons for the continued increase in deficiency include: (i) the Company's obligations to make payments to Revenue Canada under the agreement discussed in Note 11(e) in excess of the amounts provided for in the Company's financial statements pending determination of the validity of the amounts claimed as taxes by Revenue Canada; (ii) the provision in the Company's financial statements as current payables the amounts claimed by the Newfoundland Government as additional royalty for the years 1976 to 1980, pending conclusion of litigation to determine the validity of these claims, as discussed in Note 14(d); and (iii) a reduction in long-term debt. The total amounts deposited in respect of taxes in excess of the amount provided for in the Company's financial statements at December 31, 1980 is \$2,863,444 and the amount unpaid to the Government of Newfoundland provided for in the Company's financial statements being contested by the Company at December 31, 1980 amounts to \$5,411,917. If the Government of Newfoundland succeeds in the courts, the Company would claim, in offset of the liability, any amounts which may be recovered by the Company pursuant to the Linerboard Arbitration proceedings as described in Note 4, (shown as \$3,079,334 non-current receivable). Refunds due to the Company under the 20% Mining and Mineral Rights Tax Act (as discussed in Note 21), and the \$750,000 as shown as non-current asset or such larger amount as may be due to the Company on its claim in respect of the Julienne Lake property (as discussed in Note 5). There is no assurance as to the extent that the Company will be successful in its claims or when the Company will be entitled to payment of the claims on which it prevails.

Long-term bank loans secured by the Wabush royalties and the Government of Panama Bonds, were reduced by \$1,018,227 for 1980 and by \$1,497,911 for 1979. The Company expects to meet its current obligations from internally generated funds and additional borrowings from traditional sources. Should the need for additional cash amounts exceed internally generated funds, the Company would seek additional borrowing and/or refinancing.

Canadian Javelin Limited

Directors

GENERAL JEAN V. ALLARD C.C., C.B.E., D.S.O.
President Anpo Ltée., Trois Rivières, Quebec
COMMITTEE MEMBERSHIPS: Executive, Audit.
Public Information Officer

RAYMOND BALESTRERI,
President Canadian Javelin Limited, Montreal, Quebec
COMMITTEE MEMBERSHIP: Executive.

HONOURABLE SENATOR LIONEL H. CHOQUETTE, Q.C.
Barrister & Solicitor,
Member of the Senate of Canada, Ottawa, Ontario
COMMITTEE MEMBERSHIPS: Audit, Compliance.

WYATT S. HEGLER,
Vice President Engineering,
Canadian Javelin Limited, Montreal, Quebec.

CARLOS F. JELENSZKY,
President Joyeria Riviera, S.A. Panama City, Republic of Panama

TORÉ KORCH,
Managing Director of Sonitel, S.A. Panama City, Republic of Panama
COMMITTEE MEMBERSHIPS: Executive, Audit, Compliance.

ERNESTO MADURO,
President I.L. Maduro Jr., S.A. Panama City, Republic of Panama

MANUEL J. PAREDES,
Director Companie de LaFevre, Panama City, Republic of Panama
COMMITTEE MEMBERSHIP: Chairman, Executive.

PIERRE WARREN,
President Les Industries Warren, Inc., Quebec City, Quebec.
COMMITTEE MEMBERSHIPS: Executive, Audit, Compliance.

Executive Officers

Raymond Balestreri
President

Wyatt S. Hegler
Vice President Engineering

Julius Mallin
Executive Vice President

Yves R. Vincent
Treasurer, Secretary

Canadian Javelin Limited

Subsidiaries

Cia Minera San Marcos S. de R.L.
Bison Petroleum & Minerals Limited (See note 14(h)
to Consolidated Financial Statements)
C.J.V. Holdings Limited
Inter American Minerals Corporation
Javelin Bulkcarriers Limited
Javelin Export Limited
Javelin International, S.A.
Javelin Paper Corporation Limited
Javelin Forest Products Limited
Javelin Realties Limited
Julco Iron Corporation Limited
Minas San Cristobal, S.A.
Newfoundland and Labrador Corporation Limited
Pavonia, S.A.
Pavonia, S.A. de C.V.
Bureau d'Administration de Services et d'Etudes
Pavonia (Uruguay) Ltda.
Ovens of France (Fours de France) Ltd.
Julian Iron Corporation

Affiliates

Dominion Jubilee Corporation Limited (See note 14(h)
to Consolidated Financial Statements)
Knoll Lake Minerals Limited
Norlex Mines Limited

Auditors

Roston, Reinharz, Bratt, Fremeth
Chartered Accountants
Montreal, Canada

Transfer Agents & Registrars

Canada: Canada Permanent Trust Company
*St. John's, Newfoundland; Halifax, N.S.;
Montreal, Quebec; Toronto, Ontario; Vancouver, B.C.*
United States: The Continental Stock Transfer & Trust
Company,
Jersey City, New Jersey

Security Markets

United States — NASDAQ,
(National Association of Securities Dealers Automated Quotation
system)
Canada — Vancouver Stock Exchange, Vancouver, B.C.

Canadian Javelin Limited

Offices

Registered Office and Executive Office

1115 Sherbrooke Street West, Montreal, P.Q. H3A 1H5

Newfoundland Office

The Murray Premises, Becks Cove, St. John's,
Newfoundland

Panama Office

33 Avenida Federico Boyd, Panama, R.P.

South American Offices

Augustinas, 1357 Santiago, Chile

Montevideo, Uruguay

Rincon, 487

LaPaz, Bolivia

Calle Loayza 250

Edif Castilla 5°

Central American Offices

120 Calle, 5A San Salvador, El Salvador

Tegucigalpa, Honduras

Septimo Piso, Edificio Cantero

Export Sales Office

P.O. Box N 3945

Nassau, Bahamas

Bermuda Office

P.O. Box 906, Wallis Building, Hamilton, Bermuda

European Office

Palais de LaScala

Monte Carlo, Monaco

Ethiopian Office

P.O. Box 2549, Addis Ababa, Ethiopia



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