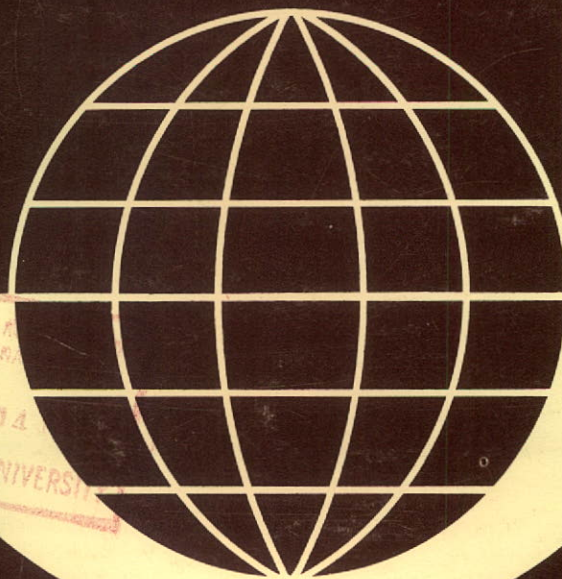


ANNUAL
REPORT **1979**

CANADIAN JAVELIN LIMITED



CANADIAN JAVELIN LIMITED



Report of The Board of Directors to Shareholders

Dear Shareholder:

Your company, after having recognized in 1978 an unusually large loss of \$6,550,290, has realized a very small profit in 1979. The profit was achieved in spite of certain write-offs, the making of provisions for potential taxes for the year, and substantial legal expenses.

Notwithstanding the company's vigorous conduct of significant legal proceedings the company was successful in reducing legal and accounting fees during 1979. To a substantial degree this reduction is the result of the disposition of legal actions, such as the litigation with the S.E.C., and your management's strenuous efforts to control these costs. Management believes that this trend should continue in 1980 and further substantial reductions should result in these areas.

In its Central American projects in the Republics of El Salvador and Honduras, your company can report favorable developments during 1979.

Rehabilitation and development work at the Divisadero Mine have increased its economic potential. Sufficient silver and gold ore reserves at Divisadero have been confirmed to provide ore for a new increase in the milling and smelting capacity at the San Cristobal plant to 300 tons per day (where the Divisadero ore is processed). The enlarged installation is expected to be financed from internal corporate sources. Four parallel silver and

gold ore veins of mineable width have been surveyed on the surface over a lineal distance of 4.2 kilometers. A total of 9 shafts exist to a maximum depth of 780 feet, and shallow portions of the deposits have been mined in part. Geological information to date is sufficient to warrant enlarging operations and also suggests the possibility of further production increases. Detailed additional exploration is still necessary to determine the full nature and reserves of these deposits.

In the Republic of Honduras, the company is taking the necessary initial steps to install a milling and smelting plant of 200 tons per day capacity in order to proceed with the extraction of the silver and gold ores in the Moramulca Mine. Approximately 200,000 tons of these ores have been developed and are ready for the commencement of extraction operations. Your company's geologists are now exploring at both the Moramulca and San Marcos deposits to determine the potential economic extensions of these ore bodies. Your company is currently in the process of hiring additional mining engineers and personnel to carry out these activities.

Up-to-date feasibility studies in respect of the Moramulca Mine have been completed by the company's independent consultants, Wright Engineers Limited of Vancouver. Your company is conducting fiscal studies at the suggestion of the Government of the Republic of Honduras with the view of establishing a precious metal

refinery in partnership with the Government.

Your company during 1979 terminated certain exploration programs in South America where results were not deemed to warrant further expenditures. However the company is continuing exploration in various countries in South America.

In April 1980, the company received a letter from the Minister of Mines of Ethiopia acknowledging the company's payment of the required fees for 1980 under the 1972 mining lease agreement between the company and Ethiopia and stating that such agreement, which covers nickel and other mineral exploration concession rights in Ethiopia, remains in effect and in good standing. The company is discussing with Ethiopian officials the exploration program to be conducted by the company under the 1972 mining lease agreement. Two representatives of the company, in addition to its resident representative, are currently in Ethiopia to pursue the company's exploration program. See note 25 to the accompanying financial statements.

Substantial expenditures were incurred in 1979 in the preparation for hearing and the presentation of evidence in the Linerboard arbitration in which your company is seeking payment of substantial balances from the Government of Newfoundland in connection with that Government's acquisition of the Linerboard Mill in Stephenville, Newfoundland. These extraordinary expenditures in the opinion of your

management are in the best interests of your company since the amounts it is seeking to recover under the terms of its contract with the Government are in excess of \$3,000,000 plus interest since 1972. It is expected that the Arbitration Board will be able to conclude its hearings and render its award in 1980. Based on opinion of company counsel, your company expects to receive a significant award.

Your company also continues to pursue its claims in court proceedings against the Government of Newfoundland in respect of the expropriation of the Julienne Iron Ore deposits and the imposition of the twenty percent "super" tax by Newfoundland on the royalties payable under our Wabush Iron Ore contract.

Your company asserts in its actions that the expropriation was unconscionable, illegal and unconstitutional, that the compensation provided under the expropriation act was grossly inadequate and that the Government was guilty of tort and breach of contract. The twenty percent Mineral and Mining Rights tax is asserted to be unconstitutional, illegal and discriminatory. Your company also asserts that the 20% tax is a violation of the statutory agreements between it and Newfoundland, that the province has retained substantial considerations paid to Newfoundland by your company for its acquisition of the shares of Newfoundland and Labrador Corporation Limited under such statutory agreements, and that the

normal standards of good faith should invalidate these governmental acts.

While the actions filed by your company in the trial court of Newfoundland continue, the constitutional aspects of these two laws have been referred by special action of the Newfoundland Government to the Court of Appeal for decision. This reference is scheduled for hearing in 1980.

Your company is also seeking substantial refunds of amounts withheld and paid to Newfoundland under the provisions of the 20% tax act.

The lawsuit brought against Lawler Kent & Eisenberg, former Special Counsel, has been settled. Details of the settlement are set out in note 15 (e) to the accompanying financial statements.

Your company continues to contest the transactions whereby the former Managing Director of your company, together with his associates, seized control of your company's largest subsidiary, Bison Petroleum & Minerals Limited, as well as control of Dominion Jubilee Corporation Limited, the owner of the Star-O'Keefe iron deposits in Quebec. In that action, extensive discovery has been completed, and it appears that the remaining discovery hearings will soon be completed and the case will then be scheduled for trial before the Supreme Court of Ontario.

Income taxes assessed by the Department of National Revenue of

Canada are being vigorously contested. The company's contestation to the 1974 tax assessment is already filed in the Federal Court and meetings with review personnel of Revenue Canada in respect of the 1975, 1976, 1977 assessments are expected to take place shortly. Your company believes that the positions it has taken are sound and will substantially reduce the amounts assessed.

The investigation under Section 114 of the Canada Corporations Act has been continuing with several hearings having taken place after a hiatus of some two and half years. Your company has contested both the appointment and the conduct of Mr. Frederick Sparling in his capacity as the Inspector appointed ex-parte by the Restrictive Trade Practices Board. One of these actions has been dismissed and one is still pending before the courts.

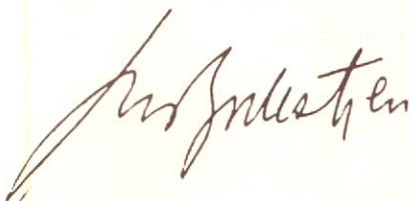
In December 1979, Pavonia, S.A., (Javelin's wholly-owned subsidiary) acquired all assets and assumed all liabilities of Pavonia's wholly-owned subsidiary Artena, S.A. As a result, Pavonia, S.A. remains as the surviving company as of December 31, 1979. The transaction was authorized by the directors and shareholders of both subsidiary companies. The purpose of the consolidation of Artena's activities into Pavonia was to centralize the development and operation of your company's silver and gold properties in Central America. The Moramulca silver and gold properties in Honduras, the San Cristobal and Divisadero silver and

gold mines in El Salvador are similar in their technical requirements as to personnel, mining equipment, and processing plants to smelt and mill the ores. Consolidation was implemented based on those facts, possible large scale production savings, increased flexibility, and administrative and financial centralization.

Under this program your company has taken the initial steps to put into effect its plan to increase its total milling and smelting capacity in Central America from the present 200 tons per day to 500 tons per day.

Respectively submitted,

On Behalf of the Board of
Directors,

A handwritten signature in dark ink, appearing to read "Raymond Balestreri". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

Raymond Balestreri,
President

April 10, 1980

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Consolidated balance sheet

as at December 31, 1979 and 1978

Assets

| | 1979 | 1978 |
|--|-----------------------|---------------------|
| | (In Canadian dollars) | |
| Current | | |
| Cash | \$ 100,287 | \$ 563,652 |
| Accounts, royalties and other receivable (Notes 4 and 17(b)) | 4,728,877 | 3,287,732 |
| Inventories (Note 3) | 301,594 | 445,144 |
| Deposits and prepaid expenses | 64,196 | 39,277 |
| Current portion of bonds, Republic of Panama | 630,774 | 593,000 |
| | <u>5,825,728</u> | <u>4,928,805</u> |
| Long-Term | | |
| Receivable under Javelin-Wabush Iron Contract (Note 4) | 19,003,396 | 20,141,303 |
| Less: Unamortized valuation discount | <u>(13,692,274)</u> | <u>(14,795,561)</u> |
| | 5,311,122 | 5,345,742 |
| Balance due re sale of linerboard project Net of Allowance (Note 5) | 3,079,334 | 3,079,334 |
| Investment in Julienne Lake Property Net of Allowance (Note 6) | 750,000 | 750,000 |
| Bonds, Republic of Panama, less current portion (Note 7) | 19,025,043 | 19,957,024 |
| Deposits re federal income tax assessments (Note 12) | 2,553,444 | 1,461,080 |
| | <u>30,718,943</u> | <u>30,593,180</u> |
| Investment and advances | | |
| Non-consolidated subsidiaries (Note 8) | 3,200,939 | 3,254,583 |
| Associated companies (Note 9) | 3,154,926 | 3,214,831 |
| | <u>6,355,865</u> | <u>6,469,414</u> |
| Fixed | | |
| Property, plant and equipment—at cost (Note 10) | 1,522,637 | 1,720,047 |
| Less: Accumulated depreciation | <u>(679,865)</u> | <u>(824,240)</u> |
| | 842,772 | 895,807 |
| Mineral rights, leases, permits and concessions including exploration and development costs (Notes 1(e) and 25) | | |
| | <u>15,010,690</u> | <u>15,252,118</u> |
| | <u>\$58,753,998</u> | <u>\$58,139,324</u> |

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

Liabilities

1979 1978

(In Canadian dollars)

Current

| | | |
|--|-------------------|------------------|
| Bank overdraft | \$ 292,525 | \$ 17,359 |
| Accounts payable | 7,933,201 | 7,119,475 |
| Payable to shareholder (including current portion of long-term payable) (Note 24(b)) | 910,610 | — |
| Bank Loan | — | 118,600 |
| Current portion of long-term loans payable (Note 11) | 1,401,720 | 1,580,582 |
| Estimated income taxes payable (Notes 12 and 18) | 1,200,000 | 700,000 |
| | <u>11,738,056</u> | <u>9,536,016</u> |

Long-Term

| | | |
|--|------------------|------------------|
| Loans payable (Note 11) | 5,606,880 | 7,264,482 |
| Mortgage and other (Note 11) | 4,090 | 106,421 |
| | <u>5,610,970</u> | <u>7,370,903</u> |
| Less: Current portion | 1,401,720 | 1,580,582 |
| | <u>4,209,250</u> | <u>5,790,321</u> |
| Payable to shareholder (Notes 12(a) and 24(b)) | 3,492,079 | 3,011,919 |
| Less: Current portion | 500,000 | — |
| | <u>2,992,079</u> | <u>3,011,919</u> |

Deferred—Advance royalty

19,000 18,000

Minority interest

32,305 33,598

Contingent Liabilities, Commitments And Other Matters (Notes 12, 13, 15, 22, 23 and 24)

Shareholders' equity

Capital stock (Note 14)

Authorized—

Preferred: redeemable, non-participating, non-dividend bearing, voting 6,000,000 shares of \$0.10 par value

Common: 12,000,000 shares of no par value. Maximum consideration not to exceed \$99,801,418.

Issued and fully paid—

Common: 7,169,648 shares

42,592,787 42,592,787

Capital surplus arising from redemption of preferred shares

588,860 588,860

Deficit

(3,418,339) (3,432,177)

39,763,308 39,749,470

\$58,753,998 \$58,139,324

On Behalf of the Board of Directors

Raymond Balestreri, Director

Colin C. Rous, Director

Consolidated statement of retained earnings (deficit)

for the years ended December 31, 1979 and 1978

| | (In Canadian dollars) |
|---|-----------------------------|
| Retained earnings—December 31, 1977 | \$ 3,118,113 |
| Net loss for 1978 | <u>(6,550,290)</u> |
| Deficit—December 31, 1978 | (3,432,177) |
| Net income for 1979 | <u>13,838</u> |
| Deficit—December 31, 1979 | <u><u>\$(3,418,339)</u></u> |

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

Consolidated statement of operations

for the years ended December 31, 1979 and 1978

| | 1979 | 1978 |
|---|--------------------------|-----------------------------|
| | (In Canadian dollars) | |
| Revenue | | |
| Gross royalties earned on iron ore (Note 17) | \$ 8,625,799 | \$ 6,273,679 |
| Sales of bullion | 3,399,472 | 1,853,752 |
| Interest and other | 1,651,802 | 1,660,205 |
| Javelin-Wabush Iron Contract (Note 4) | 1,103,287 | 806,119 |
| | <u>14,780,360</u> | <u>10,593,755</u> |
| Cost and expenses | | |
| Direct cost of royalties earned- | | |
| Amortization (Note 1(e)) | 600,597 | 623,081 |
| Provincial royalties and taxes | 2,680,632 | 1,839,504 |
| Royalties—Knoll Lake Minerals Limited (Note 17) | 1,446,309 | 1,155,018 |
| | <u>4,727,538</u> | <u>3,617,603</u> |
| Cost of sales | 2,208,626 | 1,735,855 |
| Administrative and general | 5,413,544 | 6,221,977 |
| Interest—long-term debt | 1,481,619 | 1,034,039 |
| Interest—other | 128,402 | 19,123 |
| Depreciation | 125,948 | 101,307 |
| Exploration costs written off | 241,540 | 173,120 |
| Investments and advances written off (Note 8(b)) | 52,963 | — |
| | <u>14,380,180</u> | <u>12,903,024</u> |
| Operating profit (loss) | 400,180 | (2,309,269) |
| Other income (loss) | | |
| (Loss) gain on foreign currency conversion | (152,261) | 1,120,931 |
| Income (loss) before income taxes and extraordinary item | 247,919 | (1,188,338) |
| Estimated provision for income taxes (Notes 12 and 18) | 500,000 | 500,000 |
| Loss before extraordinary item | (252,081) | (1,688,338) |
| Extraordinary item (Note 19) | 265,919 | (4,861,952) |
| Net income (loss) for the year (Note 16(a)) | \$ 13,838 | <u><u>\$(6,550,290)</u></u> |
| Earnings (loss) per share (Notes 1(f) and 16(a)) | | |
| Loss per share before extraordinary item | \$ (0.035) | \$ (0.236) |
| Extraordinary item | 0.037 | (0.678) |
| Net income (loss) for the year | \$ 0.002 | <u><u>\$(0.914)</u></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, 1979 and 1978

| | 1979 | 1978 |
|---|-----------------------|----------------------|
| | (In Canadian dollars) | |
| Source of Working Capital | | |
| Funds from operations | | |
| Loss before extraordinary item | \$ (252,081) | \$(1,688,338) |
| Charges (credits) not affecting working capital: | | |
| Depreciation and amortization | 855,613 | 782,062 |
| Exploration costs written off | 241,540 | 173,120 |
| Interest due to a shareholder, not currently payable | 508,091 | 356,119 |
| Foreign exchange loss (gain) on non-current items | 218,351 | (940,589) |
| Other | 63,313 | (9,482) |
| Total provided from (used in) operations, excluding extraordinary item | 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 | 1,634,827 | (1,327,108) |
| Redemption of bonds, Republic of Panama | 632,016 | 593,000 |
| Increase in long-term loans payable | — | 2,298,000 |
| Reduction in receivable under Javelin-Wabush Iron Contract | 34,620 | 21,004 |
| Disposal of property, plant and equipment | 324,282 | — |
| Other | 77,277 | 1,000 |
| | 2,703,022 | 1,585,896 |
| Uses of working capital | | |
| Deposits re federal income tax assessments | 1,092,364 | 1,461,080 |
| Acquisition of fixed assets | 147,455 | 360,848 |
| Increase in mineral rights and exploration costs | 716,598 | 978,419 |
| Reduction in long-term payable to shareholder | 527,931 | 477,363 |
| Reduction in long-term loans payable | 1,497,911 | 1,580,650 |
| Other | 25,880 | 18,272 |
| | 4,008,139 | 4,876,632 |
| Increase in working capital deficiency | (1,305,117) | (3,290,736) |
| Working capital deficiency—beginning of year | (4,607,211) | (1,316,475) |
| Working capital deficiency—end of year | \$(5,912,328) | \$(4,607,211) |
| Changes in components of working capital | | |
| Current assets | | |
| Cash | \$ (463,365) | \$ (298,872) |
| Accounts, royalties and other receivable | 1,441,145 | (764,070) |
| Inventories | (143,550) | 109,671 |
| Deposits and prepaid expenses | 24,919 | 12,886 |
| Current portion of bonds, Republic of Panama | 37,774 | 89,760 |
| Increase (decrease) in current assets | 896,923 | (850,625) |
| Current Liabilities | | |
| Bank overdraft | (275,166) | 16,675 |
| Accounts payable | (813,726) | (2,106,326) |
| Liability arising from litigation settlement | — | 796,752 |
| Bank loan | 118,600 | (9,200) |
| Current portion of long-term debt | 178,862 | (638,012) |
| Estimated income taxes payable | (500,000) | (500,000) |
| Payable to shareholder | (910,610) | — |
| (Increase) decrease in current liabilities | (2,202,040) | (2,440,111) |
| Increase in working capital deficiency | \$(1,305,117) | \$(3,290,736) |

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

Notes to Consolidated Financial Statements

December 31, 1979

Unless the context otherwise requires, "Javelin" means Canadian Javelin Limited and "Company" means Javelin and all its Subsidiaries. "Subsidiary" 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) and two of its subsidiaries, Gordon Holdings Limited and Bison Brewing Company Limited for reasons explained in Note 15(n). 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 and December 31, 1979, \$1.168.

(c) Inventories

Inventories consist of mining supplies and mining supplies in transit. Mining supplies are stated at average cost and mining supplies in transit are stated at actual cost.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated primarily on straight line method. Annual rates applied to major classes of property and reflected in the accompanying financial statements are summarized below:

| | |
|--|------------|
| Buildings | 5% to 11% |
| Machinery and equipment | 11% to 20% |
| Office, engineering & production equipment | 11% to 20% |
| Automotive equipment | 11% to 30% |
| Furniture and fixtures | 11% to 20% |
| Leasehold improvements | 11% to 20% |

Repairs and maintenance are charged against income as incurred and renovations and betterments are capitalized to the extent that the properties are considered to have been improved. When assets are retired, the original cost and the related accumulated depreciation are removed from the accounts and any resulting profit or loss, after consideration for salvage value or proceeds from sale, is included in income.

(e) Amortization

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 on a unit-of-production method on the basis of estimated ore reserves at the date production commences.

Unamortized expenses on mineral leases of the Wabush project amounting to \$6,507,048 (\$7,107,645 in 1978) are being amortized on the straight line basis over twenty-five years.

Unamortized expenses of Minas San Cristobal, S.A., a subsidiary, in the amount of \$97,361 (\$157,269 in 1978) relating to mine exploration and development are being

amortized over an eight year period.

Deferred mine expenses of Minas San Cristobal, S.A., in the amount of \$40,631 (\$81,061 in 1978) are being amortized over a two year period.

(f) Earnings per Share

Earnings per share are calculated using the weighted average of common shares outstanding.

(g) 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 16).

NOTE 2 Reclassification of 1978 Financial Statements

Certain amounts in the 1978 financial statements have been reclassified to conform with the presentation of similar amounts in the 1979 financial statements.

NOTE 3 Inventories

Inventories as at December 31 are comprised of:

| | 1979 | 1978 | 1977 |
|--------------------------------------|------------------|------------------|------------------|
| Mining supplies | \$222,338 | \$227,007 | \$187,937 |
| Mining supplies in transit | 79,256 | 218,137 | 147,536 |
| | <u>\$301,594</u> | <u>\$445,144</u> | <u>\$335,473</u> |

NOTE 4 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 \$0.21239 per ton as at December 31, 1979 (\$0.19274 at December 31, 1978), 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 (\$.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. The amount for 1979 under the contract amounts to \$1,103,287 (\$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 12).

NOTE 5 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 Government of the Province of Newfoundland whereby the Government acquired the principal assets of the linerboard mill project at Stephenville, Newfoundland, and associated wood harvesting operation in Goose Bay, Labrador, and assumed liabilities in connection with the project. The foregoing amount of \$3,779,334 represents expenditures and advances made by the Company which in the opinion of management were reasonably necessary for the establishment of

the project, or liabilities which in the opinion of management the Government is required to assume pursuant to the agreement. The Government contends that these and certain other expenditures and advances may not have been reasonably necessary for the establishment of the project or are otherwise excluded by the agreement, and has denied liability for payment of this amount, pending receipt of further documentation or evidence. An arbitration of Javelin's claims is in process.

The amount in dispute has been treated as a noncurrent 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 entire 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 6 Julienne Lake Property

On November 15, 1960, Javelin leased the Julienne Lake area of 1.29 square miles in Labrador from Newfoundland and Labrador Corporation Limited ("NALCO") (a 98.9% owned subsidiary) for a period of 99 years. In June 1975 the Newfoundland Legislature passed 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 Act expressly provided that the property was being expropriated, with provision for payment of compensation of a maximum of \$750,000. The Company's investment in the Julienne Lake property is \$3,549,271. The expropriation is the subject of litigation.

On December 31, 1975, an action was filed in the Federal Court of Canada on behalf of Javelin, NALCO, and Dominion Jubilee Corporation Limited, seeking a declaration that The Julienne Lake Deposit (Reversion) Act, 1975 and The Mining and Mineral Rights Tax

Act, 1975 are invalid, seeking specific performance by the Province of its obligations to the Company in connection with the Julienne Lake Deposit, to enjoin the Province from using confidential information furnished by the Company and from mining the iron ore in the Julienne Peninsula, reimbursement of all sums paid as a result of the 20% tax under The Mining and Mineral Rights Tax Act, 1975, and claiming damages for breach by the Province of its contractual and statutory obligations, the expropriation of the Julienne Lake Deposit, and wrongful acts, including the conversion of confidential information. The Federal Court of Canada on May 31, 1976, dismissed the action on the ground that it did not have jurisdiction to adjudicate an action against the Province of Newfoundland. The Company's appeal from this decision was denied.

On April 26, 1978, Javelin and NALCO filed two actions in the Supreme Court of Newfoundland seeking relief similar to that previously sought in the Federal Court of Canada. These actions are in the preliminary stage.

In the opinion of management and company counsel, although the matter is not free of doubt, the Company will ultimately be successful before the courts of Newfoundland in obtaining damages. However, the amount of recovery cannot be predicted with any precision.

On August 8, 1978, under its judicature law, the Province of Newfoundland referred two questions to the Court of Appeal of Newfoundland requesting the Court to rule upon the constitutionality of The Julienne Lake Deposit (Reversion) Act, 1975 and The Mining and Mineral Rights Tax Act, 1975. It is expected that the Reference case will be heard by the Appeal Court in 1980.

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 Julienne Lake Deposit (Reversion) Act, 1975.

made concurrently with the signing of the agreement. The balance was paid in the form of a single series of eight percent tax-free direct obligation bonds of the Republic of Panama in the principal amount of \$18,600,000 (U.S.) receivable in quarterly payments of varying amounts of principal and interest, no one of which is less than \$465,000 (U.S.) per quarter year and no one of which is more than \$471,000 (U.S.) per quarter year inclusive of principal and interest, i.e. constant

amount of approximately \$1,870,000 (U.S.) annually to be paid over a 20 year period, in liquidation and payment of both principal and interest in full.

A portion of the unredeemed balance of the foregoing bonds has been pledged as collateral for a bank loan in the amount of \$5,606,880 at December 31, 1979 (\$7,116,000 at December 31, 1978). (See Note 11).

NOTE 7 Bonds, Republic Of Panama

On August 27, 1975, an agreement was signed with the Government of Panama regarding payment by that Government for the Cerro Colorado mineral rights and assets. The agreement provided for a total consideration of \$23,600,000 (U.S.). Of this amount, an initial cash payment of \$5,000,000 (U.S.) was

NOTE 8 Investment and Advances in Non-Consolidated Subsidiaries—At Cost

| | 1979 | 1978 |
|---|--------------------|--------------------|
| Bison Petroleum & Minerals Limited (See Notes 1(a) & 15(n)) | \$3,123,946 | \$3,124,581 |
| Bison Brewing Company Limited (a) | 76,993 | (76,993) |
| Oltenia, S.A. (b) | — | 53,009 |
| | <u>\$3,200,939</u> | <u>\$3,254,583</u> |

(a) Bison Brewing Company Limited, a subsidiary of Bison Petroleum & Minerals Limited, has ceased commercial operations and has sold its major assets. However, it has instituted an action against the Town of Stephenville, Newfoundland and Harmon Corporation in the amount of \$140,000, plus general damages. Legal counsel is of the opinion that Bison Brewing Company Limited will be successful in its action against the Town of Stephenville in which case Bison Brewing Company Limited will have sufficient funds with which to repay the advances from Javelin.

(b) Oltenia, S.A., a Panamanian company, is owned 2/3 by Bison Petroleum & Minerals Limited and 1/3 by Javelin. As a result of expiration of mineral rights held by Oltenia, S.A. the Company has written off its investment in and advances to Oltenia, S.A. during 1979.

NOTE 9 Investment and Advances in Associated Companies—At Cost

| | 1979 | 1978 |
|---|--------------------|--------------------|
| Dominion Jubilee Corporation Limited (including advances of \$400,559 and \$399,507 at December 31, 1979 and 1978, respectively) (See Note 15(n)) | \$2,382,707 | \$2,381,655 |
| Norlex Mines Limited (including advances of \$568,446 and \$552,368 at December 31, 1979 and 1978, respectively) (a) | 767,223 | 751,145 |
| Knoll Lake Minerals Limited (See Note 17(b)) | 4,263 | 4,263 |
| Others (advances only) | 733 | 77,768 |
| | <u>\$3,154,926</u> | <u>\$3,214,831</u> |

(a) Norlex Mines Limited's operations are in the exploratory stage and its principal assets consist of mining rights and leases and of accumulated exploration expenses related thereto. Of the 6,073,163 shares of Norlex Mines outstanding at December 31, 1979 and 1978, 1,097,419 shares (18%) were held by the Company. The activities of Norlex Mines Limited during 1979 and 1978 have had no material effect on the Company's financial statements.

NOTE 10 Property, Plant and Equipment

The following is a summary of property, plant and equipment at cost:

| | 1979 | 1978 |
|---|--------------------|--------------------|
| Land | \$ — | \$ 18,000 |
| Buildings | 30,124 | 163,775 |
| Machinery & equipment | 448,078 | 556,337 |
| Automobiles & trucks | 153,757 | 153,595 |
| Office, engineering & production equipment | 659,461 | 626,659 |
| Furniture & fixtures | 50,815 | 45,799 |
| Leasehold improvements | 66,848 | 66,226 |
| Construction in progress | 113,554 | 89,656 |
| Property, plant & equipment—at cost | <u>\$1,522,637</u> | <u>\$1,720,047</u> |
| Less: accumulated depreciation & amortization | <u>(679,865)</u> | <u>(824,240)</u> |
| | <u>\$ 842,772</u> | <u>\$ 895,807</u> |

NOTE 11 Long-Term Debt

| | 1979 | 1978 |
|--|--------------------|--------------------|
| <i>Banque Nationale de Paris (Panama)</i> | | |
| Interest at 3% over London Inter-Bank Offer Rate (18 ¹⁵ / ₁₆ % at December 31, 1979) | \$5,606,880 | \$7,116,000 |
| <i>Central States Pension Fund</i> | | |
| 6 ¹ / ₂ %—Last Payment due January 25, 1979 | — | 148,482 |
| <i>Royal Trust Company</i> | | |
| 12%—Mortgage Payable | — | 102,331 |
| <i>Other</i> | | |
| Non-Interest Bearing with No Maturity Date | 4,090 | 4,090 |
| | <u>\$5,610,970</u> | <u>\$7,370,903</u> |
| Less: Debts Maturing Within One Year, Included in Current Liabilities | <u>1,401,720</u> | <u>1,580,582</u> |
| | <u>\$4,209,250</u> | <u>\$5,790,321</u> |

Loan payable is collateralized by an assignment of royalties from Wabush Mines (See Note 17) and by a portion of the bonds, Republic of Panama (See Note 7). Repayment to be made in instalments of \$350,000 (U.S.) each year on January 25, July 25, and October 25 (plus accrued interest to date of payment) and \$150,000 (U.S.) each year (plus accrued interest to date of payment) on April 25. Last payment due on October 25, 1983.

The Long-Term Debt maturing within each of the next five years is as follows:

| | |
|------------|-------------|
| 1980 | \$1,401,720 |
| 1981 | 1,401,720 |
| 1982 | 1,401,720 |
| 1983 | 1,401,720 |
| 1984 | NIL |

NOTE 12 Contingent Liabilities

(a) In March 1979 John C. Doyle secured to the Canadian Department of National Revenue (Revenue Canada) the balance (consisting of accrued interest on Canadian income taxes) claimed from him by Revenue Canada of \$1,989,376 to be paid in payments of \$500,000 on January 25, 1980, 1981 and 1982 with any unpaid balance to be paid in full on January 25, 1983. In order to provide additional security for the payments, Mr. Doyle assigned \$1,989,376 of the balance owing him, as of December 31, 1978, by Javelin Export Limited (which balance is guaranteed by Pavonia and Javelin). In partial fulfillment of its obligation to provide collateral security to Mr. Doyle (See Note 24), 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 sale by Javelin of capital stock of Wabush Lake Railway Company and Wabush Iron Co. Limited (See Note 4). Revenue Canada fully retains its liens on the shares of Javelin beneficially owned by Mr. Doyle which rights will attach to other shares acquired, if any, by him, and further retains all other rights and securities held by it until full payment of the claim, at which time the assignments will be terminated and all liens released.

As the balance claimed from Mr. Doyle has been reduced by payments as at January 1980 to \$1,489,376, the letters of demand of Revenue Canada on Javelin have now effectively been limited to that amount.

Javelin understands that Mr. Doyle will continue to seek judicial determination that he does not owe Revenue Canada material portions of the underlying tax, which he has already paid, and to the extent he is successful, the balance claimed will be reduced or eliminated.

(b) Revenue Canada has issued notices of reassessment for Javelin's taxation years 1970 through 1974. Assessments were issued for 1970 through 1973, but no tax was levied for those years, since Revenue Canada utilized deductions attributable to pre-production exploration expenses to offset the

inclusion of additional items of income for those years. Revenue Canada has claimed that Javelin's pool of pre-production exploration expenses has been exhausted and has disallowed \$1,870,850 for such expenses for 1974. For the five years in question, Revenue Canada in arriving at taxable income included approximately \$5,200,000 of additional income of which \$2,898,900 is attributable to payments received by Javelin on the balance of the sale price of the shares of Wabush Iron Co. Limited and Wabush Lake Railway Company Limited, sold to Wabush Iron Co. Limited in 1959. These payments had been treated by Javelin as non-taxable capital receipts. In the opinion of Javelin's tax counsel the \$2,898,900 attributable to these capital receipts does not constitute taxable income. The additional items of income amounting to approximately \$2,300,000 were attributable primarily to the disallowance of depletion claimed as deductions for the taxation years 1971 through 1974, and to disallowance of deduction of royalties paid to the Newfoundland Government in 1974.

The amount of the tax assessed and demanded was \$1,212,743, plus interest of \$198,586 to November 21, 1977. In the event Javelin's objection is upheld (that sale of the shares of Wabush Iron Co. Limited and Wabush Railway Company Limited, is a non-taxable transaction) Javelin would have sufficient pre-production exploration expenses not used as deductions in the prior years (1970-1973) to offset the income for the year 1974 resulting from inclusion of other items of income.

The assessment as disclosed only relates to the federal taxes and could possibly give rise to a potential provincial tax assessment in the approximate amount of \$388,000 determined on the same basis as the federal assessment. In such event Javelin's objections would be similar to those on the federal assessment.

In May 1978, Javelin deposited \$1,461,080 with a trust company in Ottawa, Canada, 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.

On April 3, 1979, Javelin received an assessment dated March 30, 1979, assessing additional taxes and interest for the year 1974 in the amount of \$233,612 of which the principal component was disallowance of a depletion allowance of \$525,956 claimed by Javelin.

In June 1979 Javelin filed a statement of claim in the Federal Court of Canada appealing the 1974 assessments. The action is in a preliminary stage.

(c) On December 11, 1978, Revenue Canada issued notices of reassessment for Javelin's taxation years 1975, 1976 and 1977, in a total amount of \$4,906,987 including interest, and under the Income Tax Act directed that the taxes be paid forthwith.

The amounts as reassessed by Revenue Canada in December 1978 are \$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. Javelin has filed Notices of Objection to these assessments.

Major components in the reassessments and objections include:

- (i) The addition to taxable income of \$2,427,317 attributable to the receipt by Javelin on the balance of the sale price of the shares sold to Wabush Iron Co. Limited in 1959 which Javelin's tax counsel believes to be non-taxable (See Notes 12(b) and 4).
- (ii) The addition to taxable income of \$933,578 of expenses deducted by Javelin, which amounts have been added back twice in the reassessments, once as unvouchered expenses and once as indirect payments. Javelin believes that the disallowance of these expenses is unwarranted and in any event should not be disallowed twice.

(iii) The addition to taxable income for the year 1976 of \$910,000 and for the year 1977 of \$1,269,000 as Foreign Accrual Property Income (arising from the interest on the Republic of Panama Bonds (See Note 7) against which Javelin believes it is entitled to substantial deductions.

(iv) The inclusion in taxable income as natural resource income of Javelin's net royalties under the Wabush Lake Mine Lease. Javelin is entitled to a 25% resource allowance deduction on such income, which deduction has not been taken into account by Revenue Canada in calculating the reassessment. The total amount of this deduction for the applicable years 1976 and 1977 is approximately \$2.8 million.

(v) Disallowance as deductions from earned income of two categories of payments (See x and y below) to the Province of Newfoundland, based on a Canadian Tax Statute which provides that firms engaged in natural resource activities cannot deduct from earned income, in certain circumstances, amounts paid as natural resource royalties and taxes to Canadian Provinces. Javelin maintains that these circumstances are not applicable in its case and therefore the deduction should be allowed.

(x) Revenue Canada maintains that the amounts paid by Javelin on royalties from its Wabush Lake Mine Lease are not deductible. In 1975, the Newfoundland Government enacted a tax on royalties and similar payments which, in effect, purports to tax Javelin's royalties from the Wabush Lake Mine Lease at an approximate rate of 20%. Javelin has been paying the tax under protest, subject to the outcome of litigation challenging the validity of the Newfoundland statute.

(See Note 6).

(y) Also disallowed by Revenue Canada as deductions from earned income are the amounts paid to, or claimed by the Government of Newfoundland under The Government-Javelin Taxation (Confirmation of Agreement) (Amendment) Act, 1960. (See Note 15(h)).

(vi) Disallowance of the settlement and fees of the shareholders litigation (See Notes 15(a) and 15(b)), of approximately \$1,900,000 which amount Javelin maintains to be deductible.

Javelin maintains that it has available pre-production exploration expenses recorded by a wholly-owned subsidiary that could be utilized to reduce Javelin's assessed taxable income. This has not been taken into account in the Revenue Canada assessments.

The assessments as disclosed only relate to the federal taxes and could possibly give rise to potential provincial tax assessments in the approximate amount of \$1,400,000 determined on the same basis as the federal assessments. In such event Javelin's objection would be similar to those on the federal assessments.

(d) In December 1979 Revenue Canada issued a Notice of Assessment disallowing Javelin's claimed taxable loss of \$3,266,507 resulting in a revised taxable income of \$100 for Javelin's 1978 taxation year. Notice of Objection to the assessment has been filed raising in major part issues similar to those discussed above. (See Note 12(b) and 12(c)).

(e) Javelin has provided an amount of \$700,000 including \$500,000 provided in 1978 in respect of any liability that may result from the assessments described in Note 12(b) and 12(c). In 1979 Javelin has provided \$500,000 in respect of estimated potential income tax liability for the current year. (See Note 18(a)). The total income taxes assessed through the year 1978 as discussed above plus interest thereon to December 1979 amount to \$7,092,466. After giving effect to

amounts received by Revenue Canada under its agreements with Javelin regarding payments, the net amount of assessments plus interest, unpaid as of December 1979 was \$5,929,328. In addition, the amount of \$1,461,080 remains on deposit with a trust company in Ottawa, Canada (See Note 12(b)) which if released to Revenue Canada would reduce the unpaid balance as of December 1979 by \$1,461,080.

The amounts paid to Revenue Canada and the amount on deposit with the trust company are carried as assets in the financial statements. However, provision has been made for \$1,200,000 as described above which amount the Company considers adequate.

(f) On March 15, 1979, Javelin reached final 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 12(b)), as well as taxes which are assessed from year to year until all such taxes are paid. (See Note 12(c)). 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 \$1,450,000 having been paid as at January 25, 1980.

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.

Under the agreement Javelin retained full right to contest these assessments and intends to

continue to contest them. Notice of Objection to all the assessments has been filed. The payment by Javelin under the agreement is secured by assignment of Javelin's rights under the Wabush Mine Royalties (See Note 17) and secondly by payments under the Javelin-Wabush Iron Contract (See Note 4), 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 13 Commitments

(a) Javelin Export Limited, a wholly-owned subsidiary of Pavonia, S.A. has entered into a 10 year consulting contract with Mr. John C. Doyle, which commenced April 1975, at an annual fee of \$125,000 (U.S.), subject to increases during the last 5 years of the contract in proportion to increases in the Canadian cost of living index between 1975 and 1980. Javelin and Pavonia, S.A. guaranteed this contract. Based on increases in the Canadian cost of living index the annual fee will be \$209,000 (U.S.) commencing April 1, 1980.

(b) The Company entered into the following minimum rental agreements:

| | December 31, 1979 |
|------------------------------|----------------------|
| Office Leases for 1980 | \$78,048 |
| Office Leases for 1981 | 28,800 |
| Office Leases for 1982 | 5,000 |

Rent expenses for the year 1979 for leased office space was \$81,681 (\$72,972 for 1978).

(c) 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 Canadian plus \$51,000 U.S. plus cost of living index increases in respect of one individual. Payment under these agreements amount to \$74,036 for 1979 and \$42,861 for 1978. Per actuarial valuation, the present value of the retirement benefits amounts to \$555,222 (See

note 16 for reconciliation with generally accepted accounting principles in the United States).

NOTE 14 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. All options granted under the 1970 plan lapse, if not exercised by then, five years after the date of grant. All options granted under the plan to employees and officers were granted prior to May 9, 1973 and therefore were exercisable only until May 9, 1978, and to the extent not exercised are now lapsed. A resolution adopted pursuant to the plan provides a grant to each director, each year until June 1980, an option for 1,061 shares per year of service as a director, (a maximum grant of options for 11,671 shares per year for all directors).

The 1970 Stock Option Plan was separated into two separate plans, (1) the U.S. Qualified Stock Option Plan intended for U.S. employees of Javelin and (2) a Plan intended for all others not entitled to options under the U.S. Qualified Stock Option Plan.

Under the U.S. Qualified Stock Option Plan 37,132 shares were reserved. The options were granted at a price not less than fair market value on the day of the grant. Under the other plan 143,221 shares were reserved. The options were granted at a price not less than 85% of the fair market value of the stock on the date of the grant.

Information as to the share options granted and exercised under the 1970 Stock Option Plan at December 31, 1979 and 1978 are shown on the accompanying schedule.

| Date Granted | Number of Shares | Option Price | | Market Value at Date of Grant | |
|---|---------------------|--------------|----------|----------------------------------|----------|
| | | Per Share | Total | Per Share | Total |
| OPTIONS OUTSTANDING AT DECEMBER 31, 1979 | | | | | |
| May 1975 | 3,183 | \$3.72 | \$11,840 | \$4.35 | \$13,846 |
| May 1976 | 3,183 | 1.91 | 6,080 | 2.25 | 7,162 |
| Aug. 1977 | 11,671 | 1.49 | 17,390 | 1.75 | 20,424 |
| Aug. 1978 | 11,671 | 1.15 | 13,422 | 1.35 | 15,756 |
| Aug. 1979 | 11,671 | 1.40 | 16,339 | 1.65 | 19,257 |
| OPTIONS OUTSTANDING AT DECEMBER 31, 1978 | | | | | |
| May 1974 | 3,183 | \$8.50 | \$27,055 | \$10.00 | \$31,830 |
| May 1975 | 3,183 | 3.72 | 11,840 | 4.35 | 13,846 |
| May 1976 | 3,183 | 1.91 | 6,080 | 2.25 | 7,162 |
| Aug. 1977 | 11,671 | 1.49 | 17,390 | 1.75 | 20,424 |
| Aug. 1978 | 11,671 | 1.15 | 13,422 | 1.35 | 15,756 |

No charges to income were made in 1979 and 1978 in relation to stock options due to insignificance of amounts.

On March 10, 1980, Stock options for an additional 117,756 shares were granted by resolution of the Board of Directors to 18 individuals at the then market price of \$1.55 per share under the 1970 stock option plans.

(b) **Pole Investments Inc.**

In March 1979 Pole Investments Inc. (Pole) in a subscription offer, which cancelled a then outstanding subscription offer by Pole, offered to purchase 325,000 Common Shares for \$357,500 to be paid within 25 days after acceptance of the offer and approval thereof by necessary regulatory authorities, which was subsequently amended to provide for a purchase price of \$1.40 per share (\$455,000). The offer provided for an option to Pole, exercisable within 350 days after its offer was accepted, to purchase up to an additional 325,000 shares at \$1.25 per share (subsequently amended to \$1.50 per share).

On March 10, 1980, Pole and Javelin entered into a new subscription agreement cancelling the March 29, 1979 Pole Subscription agreement, and Pole agreed to purchase \$500,000 in convertible debentures from Javelin. The debentures will bear interest at the London Inter-Bank Offer Rate plus three percent per annum, mature in three years, and will be

convertible into common shares of Javelin at the rate of \$1.6667 per share for the first eighteen months thereof, and at the rate of \$2.05 per share during the last eighteen months, but the maximum number of shares to be issued on conversion is 300,000 shares. The subscription is conditional upon Pole's receiving an option to purchase an additional 300,000 common shares at a purchase price of \$2.25 per share during the period beginning on the date of the purchase of the debentures and ending five months after the maturity date of the debentures and the agreement is subject to the approval of necessary regulatory agencies. PAVONIA, S.A. will guarantee Javelin's obligation under the debenture issue and will secure the performance by pledge of part of the Republic of Panama bonds. (See Notes 7 and 11).

(c) In March 1980, a Certificate of Continuance was issued continuing Javelin in accordance with the Canada Business Corporations Act. The Articles of Continuance filed by Javelin amended its charter to provide for an unlimited number of authorized common shares and Class A preferred shares, both of no par value.

NOTE 15 Litigation

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

A class action commenced in the United States District Court for the Southern District of New York in

December 1973, on behalf of purchasers of Javelin's shares during an unspecified period. On July 9, 1975, the court fixed the class as those who purchased Javelin's shares between April 30, 1969 and October 25, 1973. In August 1976 the Court approved a settlement and ordered Javelin to pay into a settlement fund \$1,350,000 (U.S.). Javelin made full payment for the settlement fund of \$1,350,000 (U.S.) and recorded the sum as an extraordinary charge against income in the year ended December 31, 1976, and the sum so paid is now being held in escrow by Javelin's attorney pending adjudication of certain claims to which objection has been made and not yet resolved. Counsel fees for the attorney of the plaintiff, and disbursements have been paid out of the settlement fund. In 1979, the court issued an order allowing the filing of further claims against the settlement fund by certain members of the class who may have been misled by the original notice given to class members in 1976. Claims have been filed pursuant to said order and it is now expected that distribution to class members will be made in 1980.

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

An action was filed in December 1973, in the Circuit Court of Cook County, Illinois, as a class action on behalf of all purchasers of Javelin's shares on or after November 1, 1969. The complaint alleged

- violations of the Securities Act of 1933 and Illinois common law and seeks damages in an unspecified amount. This case was resolved by a court approved settlement under which members of the class would receive settlement payments based on an agreed formula. In 1979 Javelin paid, in connection with this matter, settlement sums totalling \$3,069 (U.S.) for damages to claimants and claim trustee fees of approximately \$24,000 (U.S.). Still pending in this case 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 requests 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.
- (c) **Lurie, et al v. Canadian Javelin Limited, et al**
- An action filed December 5, 1973, in the United States District Court for the Northern District of Illinois, purporting to be a class action on behalf of all purchasers of Javelin's common stock on or after June 1, 1973. The complaint alleges common law fraud and violations of Securities Exchange Act of 1934 and the Illinois securities law. The action seeks damages in an unspecified amount or, in the alternative rescission of share purchases, together with preliminary injunctive relief. The action is in the early stages.
- No class has been certified in this action. The settlement stipulation in the Lurie state action (See Note 15(b)), provides that upon approval of that settlement stipulation, plaintiffs will apply for discontinuance of this action in the United States District Court, and therefore on February 7, 1977, the District Court stayed further proceedings in the case.
- (d) **Bilan Realty Corporation, et al v. Canadian Javelin Limited, et al**
- On February 19, 1976, this action in the United States District Court for the Southern District of 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. The complaint contains no facts from which any damages to plaintiffs can be calculated. Although the action has been pending for more than four years, only slight development of plaintiffs case has taken place. Javelin counsel is of the opinion that there is no merit to the claim and that Javelin should prevail.
- (e) **Canadian Javelin Limited v. Lawler Kent & Eisenberg, et al**
- In March 1978, Javelin terminated the appointment of Lawler Kent & Eisenberg as special counsel to Javelin's Compliance Committee, under a 1974 Consent Judgment. Lawler Kent & Eisenberg had acted as special counsel since 1974. In May 1978, Javelin brought an action against the law firm and certain members of the firm in the District Court for the District of Columbia, alleging that they improperly discharged their responsibilities as special counsel. In July 1978, the defendants filed their answer to Javelin's complaint denying Javelin's allegations and counterclaimed against Javelin for libel and for \$37,384 (U.S.), plus interests and costs, as the unpaid balance due from Javelin for legal fees and expenses. In January 1980, (after the trial had commenced) the action was settled. Pursuant to the settlement agreement Javelin withdrew, and agreed to the dismissal with prejudice of all of its claims against all the individual defendants. Javelin agreed to dismiss the only remaining claim, the breach of contract claim against the defendant law firm, in consideration for the payment of \$105,000 (U.S.) to Javelin. The defendants withdrew and agreed to the dismissal with prejudice of their counterclaims against Javelin. Javelin and the defendants released each other and their respective representatives from all actions, suits, causes of actions, claims and demands as of the date of the settlement agreement. No findings of any kind were made by the Court and the parties agreed that the settlement agreement would not be considered to constitute an admission of the truth of any allegation made by the parties. The amount of \$105,000 (U.S.) has been received by Javelin in March 1980.
- (f) **Bison Petroleum & Minerals Limited v. Canadian Javelin Limited**
- In May 1978, Bison instituted an action in the Supreme Court of Newfoundland against Javelin seeking recovery of \$671,082 and interest thereon and costs, for \$671,082 allegedly advanced by Bison to Javelin between January 1, 1974 and December 31, 1977. Javelin intends to vigorously contest this action. This amount is reflected in the financial statements.
- (g) **Canadian Javelin Limited v. Dominion Jubilee Corporation Limited**
- On September 8, 1977, Javelin brought an action in the Supreme Court of Newfoundland against Dominion Jubilee Corporation Limited for the principal sum of \$401,490, plus interest in the sum of \$177,813 and costs. The principal sum represents advances made by Javelin to Dominion Jubilee Corporation Limited, upon the request of the latter, from 1969 through 1977. Dominion Jubilee Corporation Limited obtained the right to issue a third party notice calling upon Bison for indemnification if it is found liable, and has filed its defence. The case is expected to proceed to trial in 1980.
- In its defense, Dominion Jubilee admits Javelin advanced the sum of \$387,689, but attempts to off set an alleged indebtedness by the plaintiff to Bison Petroleum against this amount. It is counsel's opinion that the attempted off set is invalid and that Javelin will recover at least \$387,689.
- (h) **Government of Newfoundland v. Canadian Javelin Limited**
- On April 11, 1979 the Government of Newfoundland sued Javelin for additional royalties under The Government-Javelin Taxation (Confirmation of Agreement) (Amendment) Act, 1960 in the

- amount of \$856,663 with respect to the shipments of iron ore concentrates during 1976, \$992,153 with respect to shipments during 1977 and \$728,971 with respect to shipments during 1978, plus interests and costs. Provision has been made in the financial statements with respect to the amounts of \$856,663, \$992,153 and \$728,971 which may be due as additional royalty for 1976, 1977 and 1978. 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 a demand for additional royalties in the amount of \$1,413,910 with respect to shipments during 1979 for which provision has also been made in the financial statements.
- (i) **Pavonia, S.A. v. Bison Petroleum & Minerals Limited**
- On January 17, 1978, by judgment of the First Circuit Court of the Republic of Panama, an agreement entered into on June 5, 1975, between Bison and Pavonia, S.A. ("Pavonia") was annulled. The said agreement provided for the sale by Bison to Pavonia of 33,400 shares of the capital stock of Oltenia, S.A. (a Panama corporation) owned by Bison. The said judgement condemned Bison to pay to Pavonia costs of the lawsuit which were fixed at \$46,965 (U.S.). In 1978 an action was commenced in Ontario entitled Pavonia v. Bison for recovery of the aforesaid \$46,965 (U.S.) which action was discontinued; but by an order in October 1979 the Court ruled that the discontinuance was without effect and permitted Bison to file an appearance, affidavit of merits and to deliver its statement of defense and counterclaim seeking \$475,000 and seeking a declaration that the Panamanian Court's judgment was invalid. An application for leave to appeal from this order is pending.
- (j) **Ayre, Shirriff, Wylie v. Canadian Javelin Limited**
- In July and August 1977, Anthony G. Ayre, Frank C. Shirriff and C.W. Wylie, former directors of Javelin, instituted proceedings against Javelin claiming the amounts of \$6,480, \$3,100 and \$765 respectively, being the amounts allegedly owed to them by Javelin for fees and expenses. Javelin has filed a contestation to the actions denying liability and has filed cross demands against each of the said former directors claiming from each \$1,900,000 representing damages suffered by Javelin as a result of their improper conduct as directors including breaches of fiduciary duty. Mr. Shirriff moved to dismiss Javelin's cross demand which motion to dismiss was denied on November 8, 1978 and Mr. Shirriff has appealed from the denial of his motion.
- (k) **MacPherson v. Canadian Javelin Limited**
- On November 24, 1976, a former officer and director of a subsidiary of Javelin caused to be served an action claiming \$336,713 resulting from loss of office. Javelin has filed a contestation to the action and in the opinion of management the claim is grossly exaggerated. The plaintiff has not actively pursued the action.
- (l) **Canadian Javelin Limited v. Bison Petroleum & Minerals Limited**
- On October 28, 1977, Javelin issued a writ against Bison claiming the sum of \$827,070 representing Bison's share of the litigation costs settlements paid into by Javelin in respect of two class actions brought against Javelin in the U.S. District Court for the Southern District of New York by G. Bonime as plaintiff therein and in the Circuit Court of Cook County, Illinois, Chancery Division by Fay Lurie and H. Haskel Lurie as plaintiffs. Javelin claims contributions and indemnity against Bison for the said funds, and Bison has delivered its statement of defense.
- (m) **Inquiry Under Canada Corporations Act**
- On May 17, 1977, the Restrictive Trade Practices Commission of Canada, upon an ex parte application, ordered an inquiry into the affairs of Javelin, and appointed F.H. Sparling, a federal public servant to conduct the inquiry. The inquiry is continuing and Mr. Sparling has made no report thereon to this time. Prior to his appointment, Mr. Sparling agreed to give Company documents and other information to the United States Securities and Exchange Commission and to the Quebec Securities Commission, and certain Company documents and information were, after the appointment, given by him to the United States Securities and Exchange Commission. On February 10, 1978 the Company commenced an action in the Federal Court of Canada against Mr. Sparling and Gaetan LaFlamme, one of Mr. Sparling's authorized agents, for an interlocutory and permanent injunction to restrain Mr. Sparling from the communication of information, or the giving of Company documents obtained in the inquiry to any other persons.
- On June 2, 1978, Mr. Justice Gibson dismissed the request for interlocutory injunction ruling that such communication of information by the defendants was authorized by law, that Javelin has not made out a prima facie case, and had not established irreparable injury. Javelin's appeal of the denial of the temporary injunction was denied. Mr. Sparling then sought an order striking out Javelin's action in the Federal Court of Canada. The order was denied, and Mr. Sparling's appeal from the order was denied.
- Javelin also commenced another action in the Federal Court of Canada to enjoin Mr. Sparling from continuing as inspector on the grounds (inter alia) of bias against Javelin, which action was stricken by the court for failure to disclose a cause of action; and Javelin's appeal of that order and its motion for leave to appeal to the Supreme Court of Canada have been denied.
- (n) **Bison Petroleum & Minerals Limited and Dominion Jubilee Corporation Limited**
- (1) Pursuant to a Judgment 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 2,587,284 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 the latter's wholly-owned subsidiary, Jubilee Québec 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 the Company 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, would 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 hearing, and the shares were voted without objection at the Shareholders' Meeting. Based on available data, it is the opinion of Javelin's counsel that Bison will not be successful in this action.

(2) In August 1977, Bison issued a writ to commence 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. In September 1978, Bison filed its Statement of Claim seeking special, general and punitive 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 Petroleum & Minerals Limited and Dominion Jubilee Corporation Limited 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 adjourned the applications to allow for the examination of the deponents who filed affidavits

in support thereof, ordered that each of the meetings be convened, scrutineers appointed to report on the number of shareholders represented, in person or by proxy, thereat and that without any further action the meetings be adjourned indefinitely. Hearing on the said applications has not yet been reconvened. In June 1978, Bison and Dominion Jubilee applied to the Court to order that the adjourned meetings be held. The applications were denied by the Court.

(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 Notes 15(n)(1)) and the issuance of shares pursuant to these agreements were null and void, interlocutory and permanent 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. The action has been defended by all the defendants, and discoveries have been held of some of the parties.

NOTE 16 Differences in Application of United States and Canadian Generally Accepted Accounting Principles

| (a) Net Loss Reconciliation | <u>1979</u> | <u>1978</u> |
|--|--------------------|----------------------|
| Loss before extraordinary item per statement of operations—as determined in accordance with Canadian Generally Accepted Accounting Principles (G.A.A.P.) | \$(252,081) | \$(1,688,338) |
| (Add) Deduct: | | |
| Gain on sale of land and building treated as extraordinary item under Canadian G.A.A.P. (See Note 19) | 265,919 | — |
| Adjustment in respect of deferred liability under individual retirement agreements (See Note 13(c)) | (36,201) | 16,082 |
| Liability under retirement agreement entered into during 1978 | — | (230,490) |
| Exchange adjustment on retirement agreements | — | (38,865) |
| Loss before extraordinary item as determined in accordance with United States G.A.A.P. | \$ (22,363) | \$(1,941,611) |
| Extraordinary item under United States G.A.A.P. (see note 19) | — | (4,861,952) |
| Net loss as determined in accordance with United States G.A.A.P. | <u>\$ (22,363)</u> | <u>\$(6,803,563)</u> |
| Loss per Share (per United States G.A.A.P.) | | |
| Loss before extraordinary item | \$ (0.003) | \$ (0.271) |
| Extraordinary item | — | (0.678) |
| Net loss | <u>\$ (0.003)</u> | <u>\$ (0.949)</u> |
| (b) Reconciliation of Retained Earnings (Deficit) | | |
| Retained earnings per statement of retained earnings as at December 31, 1977 in accordance with Canadian G.A.A.P. | | \$ 3,118,113 |
| Less: Increase in parent company's interest in its' subsidiary arising from issuance of capital stock by the subsidiary in 1973 (See Note 16 (c)) | | (419,350) |
| Liability under individual retirement agreements entered into before December 31, 1975, recorded under United States G.A.A.P. (See Note 16(d)) | | (265,748) |
| Retained Earnings—December 31, 1977, in Accordance with United States G.A.A.P. | | \$ 2,433,015 |
| Net loss for 1978 in accordance with United States G.A.A.P. (See Note 16(a)) ... | | (6,803,563) |
| Deficit—December 31, 1978, in accordance with United States G.A.A.P. | | \$(4,370,548) |
| Net loss for 1979 in accordance with United States G.A.A.P. (See Note 16(a)) ... | | (22,363) |
| Deficit—December 31, 1979, in accordance with United States G.A.A.P. | | <u>\$(4,392,911)</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.

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 an 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 (\$.02 per share) rather than an income of \$273,032 (\$.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 has been followed consolidated retained

earnings as stated would be decreased by \$419,350 and capital surplus would be increased by \$419,350.

(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 17 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 nonbessemer ore, (\$1.61613 per ton at December 31, 1979, \$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 11) and the payment of tax assessments to Revenue Canada (See Note 12 (f)).

(b) Javelin is obligated under the "Knoll Lake Mining Lease" to pay a royalty of \$0.32 per ton on shipments from the Wabush Mine. These royalties are payable to Knoll Lake Minerals Limited, the shares of which are 39.5% held by Javelin.

Javelin and the joint venturers and participants in the Wabush Mines Project have agreed that Knoll Lake Minerals Limited will declare and pay annually, dividends equal to royalties received (\$0.32 per ton) less appropriate deductions for expenses and income taxes. Accordingly, the Company receives an annual dividend of 39.5% of the royalty paid, less such pro rata reduction, provision for which is made in the accounts annually on the accrual basis in the amount declared (1979-\$298,078; 1978-\$236,614).

NOTE 18 Income Taxes

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

| Income Before Extraordinary Item | 1979 | 1978 |
|---|------------|---------------|
| Computed "Expected" tax provision (recovery) applying the statutory combined Federal-Provincial rate of 48% | \$ 119,000 | \$ (570,402) |
| Increases (Reductions) in Taxes Resulting from: | | |
| Net losses of subsidiaries not tax deductible | 198,090 | 386,875 |
| Excess amortization and depreciation not deductible for tax purposes ... | 287,142 | 228,060 |
| Allowance in respect of items similar to those described in Note 12 | 1,177,928 | 1,465,993 |
| Non taxable receipts under Javelin-Wabush Iron Contract | (529,778) | (386,937) |
| Resource allowance | (825,467) | (585,542) |
| Currency translation | 73,085 | (538,047) |
| Provision in respect of additional liability from prior years tax assessments (See Note 12(e)) | — | 500,000 |
| Income tax provision | \$ 500,000 | \$ 500,000 |
| Extraordinary Item | | |
| Expected tax provision (recovery) by applying the statutory combined Federal-Provincial rate of 48% | \$ 113,241 | \$(2,333,736) |
| Tax Effect of Non-Taxable capital gain (loss) | 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 \$3,141,725 of exploration and development expenses recorded by a subsidiary 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 12).

(c) **Loss Carry-Forwards**

In its tax filings, Javelin is claiming \$7,040,000 of losses carry-forward to reduce future taxable income. If not utilized, the carry-forward would expire as follows:

| | |
|------|------------|
| 1980 | \$ 700,000 |
| 1981 | 1,450,000 |
| 1982 | 440,000 |
| 1983 | 3,050,000 |
| 1984 | 1,400,000 |

If Revenue Canada's position on the tax assessments were to prevail, the carry-forward would be eliminated (See Note 12).

NOTE 19 Extraordinary Item

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

(a) As a result of the matters described in Note 22, the Company wrote off in 1978 a total amount of \$4,889,296 comprising of \$2,485,837 of mineral rights and exploration cost and \$2,403,459 of excess of cost over book value of Javelin's investment in its subsidiary, Newfoundland and Labrador Corporation Limited (See Note 22).

NOTE 20 Changes in Corporate Structure

In 1979 Pavonia, S.A. acquired all assets and assumed all liabilities of its wholly-owned subsidiary Artena, S.A.

NOTE 21 Remuneration of Directors and Officers

| | 1979 | 1978 |
|--|------------------|------------------|
| Aggregate remuneration—as directors (11 in 1979 and 1978) | \$116,697 | \$107,881 |
| Aggregate remuneration—as officers (4 in 1979 and 3 in 1978) | 155,554 | 129,920 |
| | <u>\$272,251</u> | <u>\$237,801</u> |

Number of directors who are also officers:
2 in 1979 and 1978

NOTE 22 Newfoundland Impost Act

In December 1978 the larger portion of the mineral exploration concessions held as a result of statutory agreements between the Province of Newfoundland, Javelin, and Newfoundland and Labrador Corporation Limited ("Nalco") (control of which was originally acquired from the Government of Newfoundland by Javelin for cash and additional considerations) were terminated in virtue of the Impost Act enacted by the Newfoundland Government in June 1978. In 1979 additional areas were surrendered in virtue of the Impost Act. The Company has notified the Newfoundland Government of its intent to seek damages. The outcome of this claim is not determinable at this time.

Exploration rights covering approximately 745,600 acres (301,740 hectares) as well as all formal mining leases such as the Wabush Lake Mines Lease have been retained, and exploration rights in respect to approximately 6,866,280 acres (2,778,335 hectares) originally agreed under the statutory agreement with the Province are terminated. The Impost Act provides for a tax on areas held under certain concessions of Nalco at annual rates escalating from \$1.15 per hectare in 1980 to \$3.00 per hectare by 1982. The Impost Act was by its terms made retroactive to January 1, 1978 and tax for 1978 was applicable with respect to areas not terminated prior to December 31, 1978. Among the principal exploration prospect areas retained are those in which Nalco is engaged in a joint exploration project in the Burin Peninsula area for uranium properties with B P Minerals Limited; and in general exploration projects with Noranda Exploration Limited in the Point Leamington area, and with Hudson's Bay Oil and Gas Company Limited in three separate areas on the Island of Newfoundland. In 1979, Falconbridge Nickel Mines Limited terminated its right to explore 254 square miles of Nalco's concessions. Falconbridge had made exploration expenditures of approximately \$298,000 since receiving the exploration rights. The amounts expended by the

Company and/or by the joint venturers described above are applied in full in reduction of the Impost tax. This has resulted in a nil tax to date.

NOTE 23 Government Of Newfoundland

The Government of Newfoundland may seek to recover additional sums totalling \$345,577 with respect to royalty payments made to Knoll Lake Minerals Limited during 1976, \$355,262 with respect to payments made during 1977 and \$278,326 with respect to payments made during 1978 in virtue of The Mining and Mineral Rights Tax Act, 1975.

With respect to the above mentioned amounts and the amount of \$193,273 paid for 1975 Javelin is entitled to a refund from the amounts withheld from it and paid over by Wabush Mines to Newfoundland under The Mining and Mineral Rights Tax Act, 1975. Thus, the liability has been duly recorded with an off set contra-entry.

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. In August 1978, the Lieutenant-Governor in Council of Newfoundland referred to the Court of Appeal of the Supreme Court of Newfoundland the question as to whether The Mining and Mineral Rights Tax Act, 1975 is invalid (See Note 6).

In 1979 Javelin filed amended tax returns for the years 1975, 1976, 1977 and 1978 under The Mining and Mineral Rights Tax Act, 1975. In the amended returns, Javelin claims deductions in respect of costs of collection, outlays on the property and payments of royalties to Knoll Lake Minerals Limited (See Note 17(b)) and further claims credits for interest on the amounts withheld from time to time as provided by the Act. The amount in respect of such taxes recorded in the Company's financial statements for 1975 was \$546,368, for 1976 was \$1,048,661, for 1977 was \$1,186,920 and for 1978 was \$976,610. In 1979 the amount recorded is \$1,376,483. 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.

NOTE 24 Transactions With Related Parties

- (a) Consulting contract with Mr. John C. Doyle (See Note 13(a)).
- (b) In March, 1978 an arbitrator (an independent chartered accountant) found that as of September 30, 1977, Javelin's subsidiary, Javelin Export Limited was indebted to Mr. John C. Doyle in a total amount of \$2,630,013 (U.S.). The debt to Mr. Doyle had been guaranteed by Javelin and Pavonia. Under a December 1, 1978 agreement, the debt to Mr. Doyle plus interest (computed at the London Inter-Bank Offer Rate (LIBOR) plus an additional 3% per annum) was converted to Canadian funds computed to December 31, 1978 at \$3,489,273, which agreement provided for payment of the debt in instalments over a period to July 1983.

In March 1979, Javelin, Javelin Export, Pavonia, S.A. and Mr. Doyle, entered into an agreement amending the December 1, 1978 Agreement (and giving effect to payments made to December 31, 1978) by providing for payments of the balance of \$3,011,919 owing Mr. Doyle in payments of \$500,000 each on or before January 25, 1980, 1981 and 1982, with the balance, including all interest, to be paid in full on the 25th day of January 1983, and cancelling a subscription offer of Mr. Doyle.

The current amount payable to shareholder includes \$410,610 representing reimbursements of expenses and amounts paid by John C. Doyle on behalf of the Company plus interest at the LIBOR plus 3%.

NOTE 25 Mining Rights, Ethiopia

In 1972, Javelin through a subsidiary, Artena, S.A., acquired a mineral concession in Ethiopia. The cost of the mineral rights obtained and additional exploratory work completed since acquisition is \$4,271,365 at December 31, 1979 (\$4,255,694 at December 31, 1978).

The concession is held under a mining lease agreement with the Government of Ethiopia. In July 1976, those exercising de facto control over Javelin's Board of Directors decided to abandon the mineral concession with the potential resultant loss of all rights in Ethiopia. The current Board of Directors subsequently rescinded this decision. Since acquisition of the concession, the Company has made geochemical surveys and conducted metallurgical testing, prospecting, and exploration on the concession properties, and these surveys have indicated the potential presence of ore bodies.

In March 1978, the Company's consultant prepared a geological report regarding the earth/land satellite examination conducted in 1977 over a portion of the concession area and certain adjacent areas under a prospecting permit which was then held by the Company. The report identified eight highest priority areas with anomalies (in addition to three geological zones similar to others held by the Company and believed to contain nickeliferous laterite deposits). Several secondary anomalies were also identified within the study area. The Ethiopian Government has indicated that a further field program is necessary to maintain the concession. The Company intends to proceed with the next phase of exploration and is preparing to conduct follow-up work. Since the Company has not yet completed certain exploration activities required by the mining lease agreement, the Ethiopian Government may have the right to terminate the Company's interest in the concession; however, as yet no such termination has been effected.

NOTE 26 Segmented Information

- (a) 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 ContractGross margin represents gross revenue, less costs directly applicable to the particular segments.

| | 1979 | |
|---|---------------------|-------------------|
| | Gross Revenue | Gross Margin |
| Royalties | \$ 8,625,799 | \$ 3,898,261 |
| Sales of bullion | 3,399,472 | 1,099,858 |
| 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>7,753,208</u> |
| Less common charges: | | |
| Administrative and general | | 5,413,544 |
| Interest expense | | 1,610,021 |
| Unallocated depreciation | | 34,960 |
| Loss on foreign currency conversion | | 152,261 |
| Exploration costs and investment and advances written-off | | 294,503 |
| | | <u>7,505,289</u> |
| Income before income taxes and extraordinary item | | <u>\$ 247,919</u> |

| | Identifiable Assets | Depreciation and Amortization |
|--|------------------------|-------------------------------------|
| Royalties and Javelin-Wabush Iron Contract | \$18,258,994 | \$ 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 | 12,195,052 | 15,988 |
| | <u>52,398,133</u> | <u>\$ 726,545</u> |
| Investment and advances | 6,355,865 | |
| Total assets | <u>\$58,753,998</u> | |

(b) **Segments by Geographical Location**

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

| | 1979 | | |
|---|--------------------|---------------------------------|-------------------|
| | Canada | Central and South America | Total |
| Gross revenue | \$9,752,716 | \$5,027,644 | \$14,780,360 |
| Cost of royalties | (4,727,538) | — | (4,727,538) |
| Cost of sales | — | (2,299,614) | (2,299,614) |
| Gross margin | <u>\$5,025,178</u> | <u>\$2,728,030</u> | <u>7,753,208</u> |
| Less common charges: | | | |
| Administrative and general | | | 5,413,544 |
| Interest expense | | | 1,610,021 |
| Unallocated depreciation | | | 34,960 |
| Loss on foreign currency conversion | | | 152,261 |
| Exploration costs and investment and advances written-off | | | 294,503 |
| | | | <u>7,505,289</u> |
| Income before income taxes and extraordinary item | | | <u>\$ 247,919</u> |

| | Identifiable Assets | Depreciation and Amortization |
|---------------------------------|------------------------|-------------------------------------|
| Canada | \$21,988,047 | \$ 611,736 |
| Central and South America | 26,138,721 | 114,809 |
| Ethiopia* | 4,271,365 | — |
| | <u>52,398,133</u> | <u>\$ 726,545</u> |
| Investment and advances | 6,355,865 | |
| Total assets | <u>\$58,753,998</u> | |

* There are no gross revenue and gross margin attributable to Ethiopia.

- (c) 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

Gross margin represents gross revenue, less costs directly applicable to the particular segments.

| | 1978 | |
|---|---------------------|----------------------|
| | Gross Revenue | Gross Margin |
| Royalties | \$ 6,273,679 | \$ 2,656,076 |
| Sales of bullion | 1,853,752 | 60,206 |
| Interest and other | 1,660,205 | 1,660,205 |
| Javelin-Wabush Iron Contract | 806,119 | 806,119 |
| | <u>\$10,593,755</u> | <u>5,182,606</u> |
| Less (add) common charges (credits): | | |
| Administrative and general | | 6,221,977 |
| Interest expense | | 1,053,162 |
| Unallocated depreciation | | 43,616 |
| Gain on foreign currency conversion | | (1,120,931) |
| Exploration costs written-off | | 173,120 |
| | | <u>6,370,944</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 develop- ment | 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> | |

(d) Segments by Geographical Location

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

| | 1978 | | |
|---|---------------------|---------------------------|-------------------------------|
| | Canada | Central and South America | Total |
| Gross revenue | \$ 7,104,187 | \$ 3,489,568 | \$10,593,755 |
| Cost of royalties | (3,617,603) | — | (3,617,603) |
| Cost of sales | — | (1,793,546) | (1,793,546) |
| Gross margin | <u>\$ 3,486,584</u> | <u>\$ 1,696,022</u> | <u>5,182,606</u> |
| Less (add) common charges (credits): | | | |
| Administrative and general | | | 6,221,977 |
| Interest expense | | | 1,053,162 |
| Unallocated depreciation | | | 43,616 |
| Gain on foreign currency conversion | | | (1,120,931) |
| Exploration costs written-off | | | <u>173,120</u> |
| | | | 6,370,944 |
| Loss before income taxes and extraordinary item | | | <u>\$(1,188,338)</u> |
| | | Identifiable Assets | Depreciation and Amortization |
| Canada | | \$21,260,386 | \$ 636,549 |
| Central and South America | | 26,153,830 | 87,839 |
| Ethiopia* | | 4,255,694 | — |
| | | <u>51,669,910</u> | <u>\$ 724,388</u> |
| Investment and advances | | 6,469,414 | |
| Total assets | | <u>\$58,139,324</u> | |

* There are no gross revenue and gross margin attributable to Ethiopia.

(e) Capital Expenditures

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

AUDITORS' REPORTS

To the Shareholders of
Canadian Javelin Limited

We have examined the Consolidated Balance Sheet of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES, as at December 31, 1979 and 1978, and the related Statements of Operations, Retained Earnings (Deficit), and Changes in Financial Position for the years then ended. Our examinations were made in accordance with 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 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 report dated March 27, 1979 our opinion on the 1978 Financial Statements was qualified as being subject to the effects, on the 1978 Financial Statements, of such adjustments, if any, as might have been required had the outcome of the litigation with the United States Securities and Exchange Commission been known. This litigation was settled in 1979 with no effect on the Company's Financial Statements. Accordingly, our present opinion on the 1978 Financial Statements as presented herein, is different with respect to this item.

As disclosed in the Consolidated Financial Statements of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES, uncertainties exist as to the following matters:

- (1) As disclosed in Note 12(b) (c) (d) (e), Note 18(a) (c), a review by the Canadian Department of National Revenue has given rise to income tax assessments for the years 1974 through 1978 which Canadian Javelin Limited is contesting. Consequently, the amount of potential tax liability, if any, for the years 1974 through 1979 cannot be determined at the present time.
- (2) As disclosed in Note 25, uncertainty exists with respect to the realization of the Company's investment in the Ethiopian Concession.

In our opinion, based on our examination and the reports of other auditors, and subject to the effects, if any, of such adjustments as might have been required had the outcome of the uncertainties described above been known, these Consolidated Financial Statements present fairly the financial position of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES at December 31, 1979 and 1978, the results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Montréal, Canada.
March 28, 1980.

ROSTON, REINHARZ, BRATT, FREMETH
Chartered Accountants

To the Shareholders and Board of Directors
of Pavonia, S. A. and Subsidiaries

Dear Sirs:

We have examined the consolidated balance sheet of Pavonia, S. A. and subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of operations, deficit, and changes in financial position for the years then ended, which statements are not included separately herein. Our examinations were made in accordance with 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 constitute 17% and 59% for 1979 and 19% and 52% 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.

As disclosed in note 11, uncertainty exists with respect to the realization of the company's investment in the Ethiopian concession.

In our opinion, based on our examinations and reports of other auditors, and subject to the effect, if any, of such adjustments as might have been required had the outcome of the uncertainty described above been known, the consolidated financial statements of Pavonia, S. A. and subsidiaries present fairly the financial position at December 31, 1979 and 1978 and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles prevailing in the United States of America, applied on a consistent basis.

Panama, R.P.
March 8, 1980.

GRANDE, NUNEZ Y COMPANIA

To the Members of Javelin Bulkcarriers Limited

We have examined the financial statements of Javelin Bulkcarriers Limited not included separately herein which have been prepared under the historical cost convention in accordance with generally accepted accounting principles applied in the United Kingdom on a consistent basis.

In 1972 the Government of Newfoundland acquired the Linerboard Mill project at Stephenville, Newfoundland and consequently Canadian Javelin Limited raised certain claims against the Government in regard thereto. If Canadian Javelin Limited is unsuccessful regarding these claims, Javelin Bulkcarriers Limited would be liable to its Parent for charges of up to Can. \$400,000 (£152,555) which have not been provided for in these accounts.

These claims have been submitted to arbitration in Canada and pending their determination we have been unable to form an opinion as to the state of the affairs of the company as at 31st December 1979 and of the result for the year then ended. Subject to the foregoing, in our opinion the balance sheet and profit and loss account comply with the Companies Acts 1948 and 1967.

MOORE, STEPHENS & CO.
Chartered Accountants

14th March 1980
St. Paul's House,
London, EC4P 4BN

Canadian Javelin Limited and Subsidiaries

five year summary of operations (consolidated) (in Canadian dollars)

| | Year ended December 31 | | | | |
|--|------------------------|-----------------------|---------------------|-----------------------|-----------------------|
| | 1979 | 1978 | 1977 | 1976 | 1975 |
| Revenue | | | | | |
| Gross royalties earned | \$ 8,625,799 | \$ 6,273,679 | \$ 7,710,910 | \$ 6,969,602 | \$ 3,805,982 |
| Sales of bullion | 3,399,472 | 1,853,752 | 1,013,719 | 1,080,804 | 1,335,799 |
| Interest and other | 1,651,802 | 1,660,205 | 1,566,176 | 1,569,004 | 380,327 |
| Income under Javelin-Wabush Iron Contract | 1,103,287 | 806,119 | 1,016,345 | 917,883 | 493,089 |
| Income adjustment resulting from recognizing profit on sale of shares under Javelin-Wabush Iron contract | — | — | 5,366,746 | — | — |
| | 14,780,360 | 10,593,755 | 16,673,896 | 10,537,293 | 6,015,197 |
| Costs and expenses | | | | | |
| Direct costs of royalties earned | 4,727,538 | 3,617,603 | 4,307,929 | 3,958,936 | 2,351,553 |
| Cost of sales | 2,208,626 | 1,735,855 | 1,106,544 | 1,002,840 | 814,641 |
| Administrative and general | 5,413,544 | 6,221,977 | 5,176,486 | 4,039,965 | 3,215,556 |
| Interest expense | 1,610,021 | 1,053,162 | 615,345 | 523,739 | 493,795 |
| Depreciation | 125,948 | 101,307 | 61,718 | 51,908 | 47,274 |
| Exploration costs written off | 241,540 | 173,120 | — | — | — |
| Investment and advances written off | 52,963 | — | — | — | — |
| | 14,380,180 | 12,903,024 | 11,268,022 | 9,577,388 | 6,922,819 |
| Operating profit (loss) | 400,180 | (2,309,269) | 5,405,874 | 959,905 | (907,622) |
| Other income (loss) | | | | | |
| Gain (loss) on foreign currency conversion .. | (152,261) | 1,120,931 | 765,310 | (149,145) | 217,729 |
| Equity in earnings (losses) of unconsolidated subsidiaries | — | — | — | 5,600 | (223,148) |
| | (152,261) | 1,120,931 | 765,310 | (143,545) | (5,419) |
| Income (loss) before income taxes and extraordinary items | 247,919 | (1,188,338) | 6,171,184 | 816,360 | (913,041) |
| Estimated provision for income taxes | 500,000 | 500,000 | — | — | 200,000 |
| Income (loss) before extraordinary items ... | (252,081) | (1,688,338) | 6,171,184 | 816,360 | (1,113,041) |
| Extraordinary items—(Note (F)) | 265,919 | (4,861,952) | 184,300 | (4,149,271) | (1,749,456) |
| Net income (loss) for the year—(Note (A)) ... | \$ 13,838 | \$ (6,550,290) | \$ 6,355,484 | \$ (3,332,911) | \$ (2,862,497) |
| Income (loss) per share | | | | | |
| Income (loss) before extraordinary items ... | \$ (0.035) | \$ (0.236) | \$ 0.861 | \$ 0.114 | \$ (0.155) |
| Net income (loss) for the year | 0.002 | (0.914) | 0.886 | (0.465) | (0.399) |

Canadian Javelin Limited and Subsidiaries

notes to five year summary of operations (consolidated) (in Canadian dollars)

| NOTE (A) | Year ended December 31 | | | | |
|---|------------------------|----------------------|---------------------|----------------------|----------------------|
| | 1979 | 1978 | 1977 | 1976 | 1975 |
| Income (loss) before extraordinary items in accordance with Canadian GAAP | \$ (252,081) | \$(1,688,338) | \$ 6,171,184 | \$ 816,360 | \$(1,113,041) |
| (Less) add: Items treated as extraordinary under Canadian GAAP (see Schedule "A") | 265,919 | — | 184,300 | — | — |
| Adjustment in respect of deferred liability under individual retirement agreements in accordance with U.S. GAAP | (36,201) | 16,082 | 14,613 | 13,252 | (293,613) |
| Liability under retirement agreement entered into during 1978 . . . | — | (230,490) | — | — | — |
| Exchange adjustment on retirement agreements | — | (38,865) | — | — | — |
| Settlement of shareholder's claim treated as charge against income in 1977 in accordance with U.S. GAAP | — | — | (1,293,517) | 88,563 | 175,069 |
| Income before extraordinary items in accordance with U.S. GAAP | (22,363) | (1,941,611) | 5,076,580 | 918,175 | (1,231,585) |
| Extraordinary items | — | (4,861,952) | — | (4,149,271) | (1,749,456) |
| Net income (loss) in accordance with U.S. GAAP | \$ (22,363) | \$(6,803,563) | \$ 5,076,580 | \$(3,231,096) | \$(2,981,041) |
| Earnings per share in accordance with generally accepted accounting principles in United States | | | | | |
| Income (loss) before extraordinary items | \$ (0.003) | \$ (0.271) | \$ 0.708 | \$ 0.128 | \$ (0.172) |
| Extraordinary items | — | (0.678) | — | (0.579) | (0.244) |
| Net income (loss) for the year | \$ (0.003) | \$ (0.949) | \$ 0.708 | \$ (0.451) | \$ (0.416) |
| Number of shares outstanding | 7,169,648 | 7,169,648 | 7,169,648 | 7,169,648 | 7,169,648 |

In period for which income is reported the dilutive effect of the outstanding stock options would be less than 3%.

Canadian Javelin Limited and Subsidiaries

NOTE (B)

As discussed in Note 14(b) to the consolidated financial statements at December 31, 1979 there was an outstanding offer by Pole Investments Inc. ("Pole") to purchase 325,000 Common Shares for \$455,000 with an additional 325,000 shares at \$1.50 per share. This offer was cancelled after December 31, 1979. The market price per Common Share on December 31, 1979 was lower than the price per share offered by Pole. The market price per Common Share on the date of the offer was approximately the same as the offer price. Using the treasury stock method, the sale of the Common Shares pursuant to the offer would not have any material dilutive effect on the earnings per share.

On March 10, 1980 Pole entered into an agreement to purchase \$500,000 convertible debentures from Javelin. The \$500,000 debentures will be convertible to a maximum of 300,000 Common Shares. The agreement also provides Pole with an option to purchase an additional 300,000 Common Shares at \$2.25 per share. The market price per share on the

date of the subscription agreement was lower than the price per share provided by the subscription agreement.

NOTE (C) Payments to Mr. J. C. Doyle

The Company has a 10 year consulting contract with Mr. J. C. Doyle.

Charges to income for payments to Mr. Doyle over the years 1975 to 1979 were as follows:

| Year | Amount (Canadian Dollars) |
|------|------------------------------|
| 1975 | \$118,750 |
| 1976 | 126,250 |
| 1977 | 133,000 |
| 1978 | 142,875 |
| 1979 | 146,300 |

Amounts credited to Mr. J. C. Doyle in respect of interest on amounts due to him are as follows:

| | |
|------|-----------|
| 1975 | \$358,797 |
| 1976 | 116,699 |
| 1977 | 251,347 |
| 1978 | 356,119 |
| 1979 | 567,031 |

NOTE (D)

Amounts of legal fees charged to income are as follows (rounded to thousand dollars):

| Year | Amount (Canadian Dollars) |
|------|------------------------------|
| 1975 | \$1,106,000 |
| 1976 | 1,532,000 |
| 1977 | 1,717,000 |
| 1978 | 2,268,000 |
| 1979 | 1,924,000 |

Also, in 1976 a charge of \$1,350,000 was made as an extraordinary item representing settlement of Bonime litigation.

NOTE (E)

Payments to Directors and Officers as remuneration charged to operations are as follows (Excluding payments or credits to J. C. Doyle):

| | |
|------|------------|
| 1975 | \$ 145,160 |
| 1976 | 200,984 |
| 1977 | 249,180 |
| 1978 | 237,801 |
| 1979 | 272,251 |

NOTE (F) Extraordinary items

| | (In Canadian dollars) YEAR ENDED DECEMBER 31 | | | | |
|--|---|----------------------|------------------|----------------------|----------------------|
| | 1979 | 1978 | 1977 | 1976 | 1975 |
| (1) Gain on disposal of land and building (See Note 19 to consolidated financial statements) | \$265,919 | \$ — | \$ — | \$ — | \$ — |
| (2) Losses resulting from write-off of "Nalco Properties" (See Note 19 to consolidated financial statements) | — | (4,861,952) | — | — | — |
| (3) Elimination of liability to Bison Petroleum & Minerals Limited | — | — | 184,300 | — | — |
| (4) Settlement of "Bonime" litigation | — | — | — | (1,350,000) | — |
| (5) Allowance in respect of Julienne Lake Investment | — | — | — | (2,799,271) | — |
| (6) Losses resulting from termination, abandonment or expropriation of Panamanian and other projects | — | — | — | — | (1,749,456) |
| Total extraordinary items as determined in accordance with Canadian generally accepted accounting principles | <u>\$265,919</u> | <u>\$(4,861,952)</u> | <u>\$184,300</u> | <u>\$(4,149,271)</u> | <u>\$(1,749,456)</u> |

All of the above items except for items (1) and (3) would be treated as extraordinary items under U.S. GAAP. Under U.S. GAAP items (1) and (3) would be charged to operations in arriving at income before extraordinary items.

Management's Discussion and Analysis of the Summary of Operations.

Fiscal Years ended December 31, 1979 and 1978

Revenue. Gross revenue from all sources of the Company's operations for the year ended December 31, 1979 totalled \$14,780,360, an increase of \$4,186,605 from the year ended December 31, 1978. This increase in revenue is primarily due to an increase of \$2,352,120 in royalties from iron ore shipments. During 1979, 5,451,210 tons of iron ore were shipped compared to 4,348,851 tons in 1978 which had lower shipments due to labour disputes. The payment rate also rose to a gross sum of \$1.61613 per ton at December 31, 1979 compared to \$1.46771 per ton at December 31, 1978, an increase of \$0.14842 per ton.

Gross sales of gold and silver increased by \$1,545,720 in 1979 over 1978 sales due to an increase in the prices of gold and silver. The increase in sales due to higher prices of gold and silver was partially offset by lower grade and due to lower production resulting from labour problems.

Operating Expenses. Operating expenses for 1979 totalled \$14,380,180, an increase of \$1,477,156 over 1978.

Cost of royalties and mining taxes payable to the Province of Newfoundland increased by \$1,109,935 due to the increased shipments of iron ore from the Company's Wabush property.

Cost of sales attributable to the Company's mining activity in El Salvador increased by \$472,771 due to the general increase in costs resulting from inflationary conditions.

Administrative and general expenditures decreased by \$808,433 mainly due to decreases in professional fees and expenses, as a result of settlement of significant litigation.

Interest expense during 1979 increased

by \$556,859 due to increased lending rates and higher average indebtedness in 1979 over 1978.

Loss On Foreign Currency

Conversion. The Company recognized a foreign currency conversion loss of \$152,261 for 1979 compared to a recognized gain of \$1,120,931 for 1978. The value of \$ U.S. in relation to \$ Cdn decreased from \$1 U.S. = \$1.186 Cdn at January 1, 1979 to \$1 U.S. = \$1.168 Cdn at December 31, 1979 thus resulting in foreign currency conversion loss of \$152,261 for 1979.

Correspondingly, the increase in the value of \$ U.S. in relation to \$ Cdn from \$1 U.S. = \$1.094 Cdn at January 1, 1978 to \$1 U.S. = \$1.186 Cdn at December 31, 1978 resulted in foreign currency conversion gain of \$1,120,931 in 1978.

Extraordinary Item. An extraordinary gain was recognized in 1979 in the amount of \$265,919 as compared to the recognition of extraordinary loss of \$4,861,952 in 1978. The gain in 1979 represents a gain on disposal of a building in St. John's, Newfoundland.

The loss in 1978 represents a net write-off of \$4,861,952 resulting from the termination of the larger portion of mineral exploration concessions held by Newfoundland and Labrador Corporation Limited ("NALCO"), Javelin's 98.9%-owned subsidiary, in the Province of Newfoundland, in view of enactment by the Province of Newfoundland of the Impost Act levying annually increasing taxes on mineral holdings beginning in 1978. The holdings so terminated represent the larger portion of concessions acquired by virtue of statutory agreements between NALCO and the Province of Newfoundland on which the Company had expended millions of dollars in cash in exploration expenses and other considerations paid to the Province under the statutory agreements. The Impost Act burden, enacted in June 1978 and retroactive to

January 1978, effectively deprived the Company of the greater portion of these mineral rights and benefits, in that the right to continue to hold exploration rights under the new law has only a nominal value, if any, in view of the large expenditures required to carry out exploration as provided in the original agreements under which the Company has contracted with the Province, and as these areas may now be acquired by anyone under simple claim procedures. The Company has notified the Province of its intent to seek redress.

Income Taxes. The provision for income taxes in 1979 was \$500,000.

The provision for income taxes in 1978 was \$500,000. The provision was made to provide for any potential liability that may result from the assessments by Canadian federal tax authorities in respect of the Company's years 1974 through 1977. No provision was required for 1978 income taxes. (See Notes 12(b), (c), (d), (e), (f) and Note 18 to Consolidated Financial Statements).

Management Analysis Under the United States Generally Accepted Accounting Principles. Administrative and general expenses for 1979 under U.S. Generally Accepted Accounting Principles (G.A.A.P.) are higher by \$36,201 than those reported under Canadian G.A.A.P. due to recording of an actuarial adjustment in respect of deferred liability under individual retirement agreements entered into in previous years.

In 1978 the administrative and general expenses under U.S. G.A.A.P. were higher by \$253,273 over those under Canadian G.A.A.P. due to recording of a deferred liability, under U.S. G.A.A.P., in respect of a retirement agreement entered into during 1978. (See Note 16(d) to Consolidated Financial Statements).

In 1979, the gain on sale of land and building, considered an extraordinary item under Canadian G.A.A.P., is included in arriving at loss before extraordinary item under U.S. G.A.A.P.

There were no other significant differences in the application of U.S. and Canadian G.A.A.P. in 1979 and 1978.

Fiscal Years Ended December 31, 1978 and 1977

Revenue. Gross revenue from all sources of the Company's operations for the year ended December 31, 1978 totalled \$10,593,755, a decrease of \$6,080,141 from the year ended December 31, 1977. This decrease in revenue reported is due primarily to the Company's recognition for the year 1977 of profit in the amount of \$5,366,747 attributable to the sale by the Company in 1959 of capital stock to Wabush Iron Co. Limited (See Note 4 to the Consolidated Financial Statements) in addition to the gross receipts for that year of \$1,016,345, or a total for 1977 of \$6,383,091. As disclosed in Note 4 to the Consolidated Financial Statements, the balance unrecognized on the sale of the shares (the unamortized valuation discount) is planned to be taken into account as received. Accordingly, the Company has recognized the sum of \$806,119 as revenue for 1978 in respect of receipts from the 1959 sale of capital stock, a \$5,576,972 difference between the amount recognized in 1977 of \$6,383,091 and the amount recognized in 1978 of \$806,119 i.e. a decline in revenue reported of \$5,576,972. In addition a major reason for the decrease in reported gross revenue is the fact that payments from the Company's Wabush property decreased by \$1,437,231 due to decreased shipments of iron ore during 1978 which resulted from a labour dispute which had interrupted railway services between the Wabush Lake iron ore mine in Labrador and the pelletizing

plant in Pointe Noire on the St. Lawrence River. During 1978, 4,348,851 tons of iron ore were shipped compared to 5,550,971 tons in 1977. The decrease in revenue due to the lower volume of tons shipped was partially offset by an increase in payment rate. The payment rate rose to a gross sum of \$1.46771 per ton at December 31, 1978 compared to \$1.39339 per ton at December 31, 1977, an increase of \$0.0743 per ton.

Gross sales of gold and silver bullion from the Company's mine in El Salvador increased by \$840,033 in 1978 over 1977 sales due to an increase in the price of gold and silver and a small increase in production resulting from the resumption of normal operations of the expanded facilities.

Operating Expenses. Operating expenses for 1978 totalled \$12,903,024, an increase of \$1,635,002 over 1977.

Cost of royalties and mining taxes payable to the Province of Newfoundland decreased by \$690,326 due to the decreased shipments of iron ore from the Company's Wabush property.

Cost of sales attributable to the Company's mining activity in El Salvador increased by \$629,311 due mainly to the new level of production, that has not as yet reached the full mill capacity.

Administrative and general expenditures increased by \$1,045,491 due mainly to increases in professional fees and expenses, and a general increase in operating expenses as a result of inflationary conditions.

Interest expense during 1978 increased by \$437,817 due to additional indebtedness incurred by the Company.

Gain on Foreign Currency Conversion. The Company recognized a foreign currency conversion gain of

\$1,120,931 for 1978 compared to a recognized gain of \$765,310 for 1977. The value of \$ U.S. in relation to \$ Cdn. increased from \$1 U.S. = \$1.094 Cdn. at January 1, 1978 to \$1 U.S. = \$1.186 Cdn. at December 31, 1978 thus resulting in foreign currency conversion gain of \$1,120,931 for 1978.

Correspondingly, the increase in the value of \$ U.S. in relation to \$ Cdn. from \$1 U.S. = \$1.01 Cdn. at January 1, 1977 to \$1 U.S. = \$1.094 Cdn. at December 31, 1977 resulted in foreign currency conversion gain of \$765,310 in 1977.

Extraordinary Item. An extraordinary loss was recognized in 1978 in the amount of \$4,861,952 (net) as compared to the recognition of extraordinary income of \$184,300 in 1977. The loss in 1978 represents a net write-off of \$4,861,952 resulting from the termination of the larger portion of mineral exploration concessions held by Newfoundland and Labrador Corporation Limited ("NALCO"), Javelin's 98.9%-owned subsidiary, in the Province of Newfoundland, in the view of enactment by the Province of Newfoundland of the Impost Act levying annually increasing taxes on mineral holdings beginning in 1978. The holdings so terminated represent the larger portion of concessions acquired by virtue of statutory agreements between NALCO and the Province of Newfoundland on which the Company had expended millions of dollars in cash in exploration expenses and other considerations paid to the Province under the statutory agreements. The Impost Act burden, enacted in June 1978 and retroactive to January 1978, effectively deprived the Company of the greater portion of these mineral rights and benefits, in that the right to continue to hold exploration rights under the new law has only a nominal value, if any, in view of the large expenditures required to carry out exploration as provided in the original

agreements under which the Company had contracted with the Province, and as these areas may now be acquired by anyone under simple claim procedures. The Company has notified the Province of its intent to seek redress.

In 1977 extraordinary income of \$184,300 represented income arising from the elimination of a liability to the Company's unconsolidated subsidiary, Bison Petroleum & Minerals Limited ("Bison"), resulting from Bison's nonfulfillment of a contract.

Income Taxes. The provision for income taxes in 1978 was \$500,000. The

provision has been made to provide for any potential liability that may result from the assessments by Canadian federal tax authorities in respect of the Company's years 1974 through 1977. No provision was required for 1978 income taxes. (See Notes 12 (b), (c), (d), (e), (f) and Note 18 to Consolidated Financial Statements).

Management Analysis Under the United States Generally Accepted Accounting Principles. Administrative and general expenses for 1978 under the U.S. Generally Accepted Accounting Principles ("G.A.A.P.") are higher by \$253,273 due to recording of liability

under individual employee retirement agreements. Under Canadian G.A.A.P. the expense is recorded in the year of payment.

Administrative and general expenses for 1977 under U.S. G.A.A.P. are higher by \$1,278,904 due mainly to inclusion of an arbitration settlement in the amount of \$1,293,517 awarded to Mr. John C. Doyle, the Company's principal shareholder, in current year's expenses, whereas under Canadian G.A.A.P. this settlement has been recognized in the applicable years as a prior period adjustment.

Canadian Javelin Limited and Subsidiaries

INFORMATION RELATING TO INDUSTRY SEGMENTS (In Canadian Dollars)

| | Year Ended December 31 | | | | |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|
| | 1979 | 1978 | 1977 | 1976 | 1975 |
| Revenue from unaffiliated sources | | | | | |
| Royalties on iron ore | \$ 8,625,799 | \$ 6,273,679 | \$ 7,710,910 | \$ 6,969,602 | \$ 3,805,982 |
| Sales of bullion | 3,399,472 | 1,853,752 | 1,013,719 | 1,080,804 | 1,335,799 |
| Interest and other | 1,651,802 | 1,660,205 | 1,566,176 | 1,569,004 | 380,327 |
| Javelin-Wabush Iron Contract | 1,103,287 | 806,119 | 6,383,091* | 917,883 | 493,089 |
| | <u>\$14,780,360</u> | <u>\$10,593,755</u> | <u>\$16,673,896</u> | <u>\$10,537,293</u> | <u>\$ 6,015,197</u> |
| Gross margin | | | | | |
| Royalties on iron ore | \$ 3,898,261 | \$ 2,656,076 ✓ | \$ 3,402,981 | \$ 3,010,666 | \$ 1,454,429 |
| Sales of bullion | 1,099,858 | 60,206 ✓ | (120,276) | 50,513 | 503,455 |
| Interest and other | 1,651,802 | 1,660,205 ✓ | 1,566,176 | 1,569,004 | 380,327 |
| Javelin-Wabush Iron Contract | 1,103,287 | 806,119 ✓ | 6,383,091* | 917,883 | 493,089 |
| | <u>\$ 7,753,208</u> | <u>\$ 5,182,606</u> | <u>\$11,231,972</u> | <u>\$ 5,548,066</u> | <u>\$ 2,831,300</u> |
| Identifiable assets | | | | | |
| Royalties and Javelin-Wabush Iron Contract | \$18,258,994 | \$17,490,753 | \$17,901,649 | \$11,924,955 | \$12,123,736 |
| Sales of bullion | 1,859,623 | 1,469,328 | 1,292,981 | 1,259,473 | 1,114,866 |
| Interest and other | 20,084,464 | 21,346,999 | 20,462,035 | 19,654,971 | 19,362,638 |
| Subsidiaries in the stage of exploration and development | 12,195,052 | 11,362,830 | 12,536,762 | 13,068,661 | 15,122,625 |
| | <u>\$52,398,133</u> | <u>\$51,669,910</u> | <u>\$52,193,427</u> | <u>\$45,908,060</u> | <u>\$47,723,865</u> |

*Includes \$5,366,746 of Income adjustment resulting from recognizing profit on sale of shares under Javelin-Wabush Iron Contract (See Note 4 to Consolidated Financial Statements).

Canadian Javelin Limited and Subsidiaries

Foreign and Domestic Operations

FOR THE YEARS ENDED DECEMBER 31, 1979, 1978 AND 1977 (In Canadian Dollars)

| | 1979 | 1978 | 1977 |
|---|---------------------|---------------------|---------------------|
| REVENUE FROM UNAFFILIATED SOURCES | | | |
| Canada | \$ 9,752,716 | \$ 7,104,187 | \$14,104,258 |
| Central and South America | 5,027,644 | 3,489,568 | 2,569,638 |
| Ethiopia | — | — | — |
| | <u>\$14,780,360</u> | <u>\$10,593,755</u> | <u>\$16,673,896</u> |
| GROSS MARGIN | | | |
| Canada | \$ 5,025,178 | \$ 3,486,584 | \$ 9,796,329 |
| Central and South America | 2,728,030 | 1,696,022 | 1,435,643 |
| Ethiopia | — | — | — |
| | <u>\$ 7,753,208</u> | <u>\$ 5,182,606</u> | <u>\$11,231,972</u> |
| IDENTIFIABLE ASSETS | | | |
| Canada | \$21,988,047 | \$21,260,386 | \$24,130,788 |
| Central and South America | 26,138,721 | 26,153,830 | 23,829,600 |
| Ethiopia | 4,271,365 | 4,255,694 | 4,233,039 |
| | <u>\$52,398,133</u> | <u>\$51,669,910</u> | <u>\$52,193,427</u> |
| INVESTMENT AND ADVANCES | 6,355,865 | 6,469,414 | 6,438,901 |
| EXCESS OF COST OVER BOOK VALUE OF INVESTMENT IN SUBSIDIARIES | — | — | 2,380,304 |
| TOTAL ASSETS | <u>\$58,753,998</u> | <u>\$58,139,324</u> | <u>\$61,012,632</u> |

Shareholder Information

| | 1979 | 1978 | 1977 | 1976 | 1975 |
|---|-----------|-----------|----------|----------|-----------|
| Approximate number of shareholders registered in their own names | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 |
| Approximate number of shareholders registered in name which the Company believes to be nominees | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 |
| Total registered shareholders | 18,000 | 18,000 | 18,000 | 18,000 | 18,000 |
| Average number of shares (in thousands) | 7,170 | 7,170 | 7,170 | 7,170 | 7,170 |
| Earnings (losses) per share before extraordinary items | \$(0.035) | \$(0.236) | \$ 0.861 | \$ 0.114 | \$(0.155) |
| Extraordinary gains (losses) per share | 0.037 | (0.678) | 0.025 | (0.579) | (0.244) |
| Net earnings (losses) per share | 0.002 | (0.914) | 0.886 | (0.465) | (0.399) |
| Shareholders' equity per share | 5.546 | 5.544 | 6.457 | 5.571 | 6.036 |

The Company has not paid any dividends during the five year period ended December 31, 1979.

Financial Position

(in thousands)

| | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Working capital (deficiency) | \$(5,912) | \$(4,607) | \$(1,316) | \$(3,917) | \$(3,415) |
| Long-term debt | 7,201 | 8,802 | 7,539 | 3,806 | 4,114 |
| Shareholders' equity | 39,763 | 39,749 | 46,300 | 39,944 | 43,277 |

Common Shares

Price Range

| | VANCOUVER STOCK EXCHANGE | | | |
|-------------------|--------------------------|--------|--------|--------|
| | 1979 | | 1978 | |
| | High | Low | High | Low |
| 1st quarter | \$1.35 | \$1.01 | \$1.40 | \$1.05 |
| 2nd quarter | 1.85 | 1.50 | 2.10 | 1.10 |
| 3rd quarter | 1.65 | 1.50 | 1.95 | 1.25 |
| 4th quarter | 1.30 | .81 | 1.75 | 1.00 |

The principal markets for the Company's voting shares are Canada and the United States

Subsidiaries

Cia. Minera San Marcos S. de R.L.
Bison Petroleum & Minerals Limited (See note 15 (n)(i)
to Consolidated Financial Statements)
Gordon Holdings Limited
Minerals Exchange and Sales Limited
Prairie West Exploration Limited
Rottenstone Mining Limited
Bison Petroleum & Minerals (B.C.) Limited
C.J.V. Holdings Limited
Chilian Limited Partnerships
Inter American Minerals Corporation
Javelin Bulkcarriers Limited
Javelin Export Limited
Javelin International, S.A.
Javelin Paper Corporation Limited
Javelin Forest Products Limited
Javelin Realities Limited
Julco Iron Corporation Limited
Minas San Cristobal, S.A.
Newfoundland and Labrador Corporation Limited
Pavonia, S.A.
Pavonia S.A. de C.V.
San Juan Copper Co. Limited
Bureau d'Administration de Services et d'Etudes
Pavonia (Uruguay) Ltda.

Affiliates

^ Dominion Jubilee Corporation Limited (See note 15
(n)(i) 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

Stock Exchanges

American Stock Exchange, New York, N.Y.
(trading suspended since April 30, 1975);
Vancouver Stock Exchange, Vancouver, B.C.

Canadian Javelin Limited

Head 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

Kings Court, Bay Street,

P.O. Box N 3945

Nassau, Bahamas

Bermuda Office

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

Labrador Office

Wabush, Labrador

European Office

Palais de LaScala

Monte Carlo, Monaco

Ethiopian Office

P.O. Box 2549, Addis Ababa, Ethiopia

Executive Officers

Raymond Balestreri

President

Julius Mallin

Executive Vice President

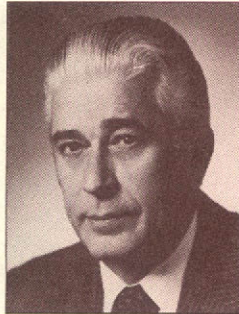
Yves R. Vincent

*Treasurer,
Secretary*

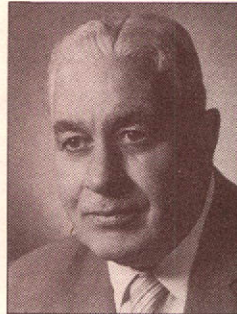
Board of Directors



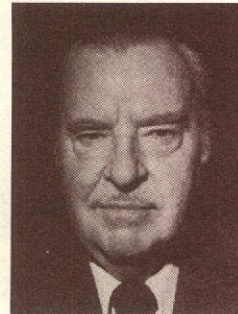
°†General
Jean V. Allard, (R'td),
C.C., C.B.E., D.S.O.
President
Anpo Ltee
 Trois Rivieres, Quebec



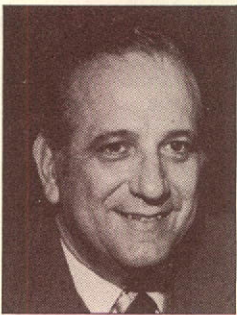
†**Raymond Balestreri**
President Canadian
Javelin Limited
 Montreal, Quebec



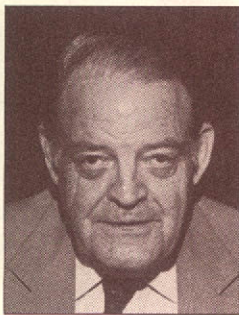
°†**Honourable Senator**
Lionel H. Choquette,
Q.C.
Barrister & Solicitor
Member of the Senate
of Canada
 Ottawa, Ontario



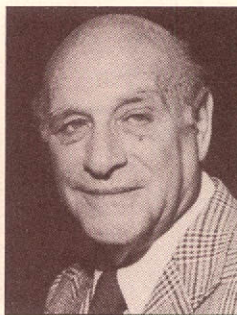
°††**Honourable**
Senator Sarto
Fournier, Q.C.
Chairman of the Board
Canadian Jeavelin Limited
Barrister & Solicitor
Member of the Senate
of Canada
 Hull, Quebec



Carlos F. Jelenszky
President
Joyeria Riviera, S.A.
 Panama City
 Republic of Panama



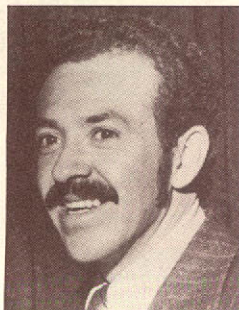
††**Tore Korch**
Managing Director
of Sonitel, S.A.
 Panama City
 Republic of Panama



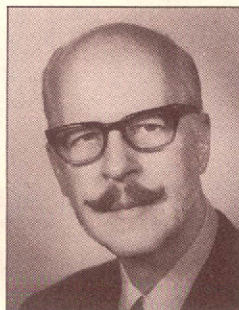
Ernesto Maduro
President
I.L. Maduro Jr., S.A.
 Panama City
 Republic of Panama



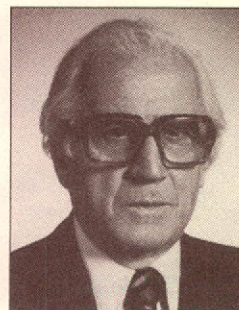
†**Manuel J. Paredes**
Director
Companie de LeFevre
 Panama City
 Republic of Panama



Dr. Federico Flamenco
Rodriguez
Attorney
 Santa Tecla
 El Salvador



*††**Colin C. Rous**
President
Rous & Matthews
and Associates Ltd.
 Montreal, Quebec



Pierre Warren
President
Les Industries Warren, Inc.
 Quebec City, Quebec

°Compliance Committee
 †Audit Committee

†Executive Committee
 *Chairman Executive Committee

CANADIAN JAVELIN LIMITED

Incorporated under Federal Charter

Printed in USA