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CANADIAN JAVELIN LIMITED

ANNUAL REPORT **J** 1978



CANADIAN JAVELIN LIMITED

1115 Sherbrooke Street West
Montreal, Quebec H3A 1H5

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An English or French edition of this Report may be obtained from the head office of the Company, 1115 Sherbrooke Street West, Montreal, P.Q., Canada H3A 1H5

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CANADIAN JAVELIN LIMITED



Report of The Directors to Shareholders

Dear Shareholder:

Your Company has recorded an unusually large loss in 1978. Significant factors in this loss, as well as in certain reduced earnings in previous periods, were extraordinary legal expenses and government takeovers of corporate assets at less than their true value, and the unfair and nationalistic actions of the governments concerned. Expropriation and government forced sales have destroyed the possibility of the Company realizing financial benefits through its successful discovery of major ore deposits. Governments have not adequately compensated your Company for the large scale risks and extensive time expenditures attendant in primary exploration and development of new mineral prospects.

The course of events was initiated by the Government of Newfoundland when the administration of that government changed in January 1972. Economic benefits then expected from new operations planned and in construction were appropriated from your Company and its Shareholders by the Government of Newfoundland through expropriation, confiscatory tax acts, and nationalization extending over the years to date.

Your Company's directors and management decided it would not acquiesce in these oppressive actions and confiscations of your Company's assets and income. Therefore, your management, in seeking on behalf of the Company fair treatment and just compensation, has instituted legal proceedings, vigorously contesting certain of these actions. Not to react vigorously to preserve your corporate assets would have constituted irresponsible conduct by management, even though this has involved expensive and unusual volumes of litigation.

Ominously, corporate officials have been subjected to unreasonable governmental

pressures in their endeavors to protect corporate assets of Shareholders. These pressures have had destructive and widespread effects.

The Company has reported much of the litigation involved in prior corporate statements, however, certain important aspects of litigation in which your Company is involved are submitted for your consideration.

(1) Linerboard Arbitration

Arbitration proceedings are now underway. The arbitrators have been appointed and have had their first meeting with others scheduled to take place shortly.

In 1972, your Company, under threat of nationalization of the paper manufacturing project, contracted to sell the Linerboard Project at Stephenville, Newfoundland to the Newfoundland Government. Since then, your Company has been engaged in an effort to obtain a determination of the balance and payment of the millions of dollars your Company claims to be payable. Both the Company and an American Shareholder of the Company took legal actions that have resulted in causing the Newfoundland Government to proceed with the arbitration, as provided by the contract. After lengthy delays, and only after the Newfoundland Supreme Court issued a Judgment that the Provincial Government was required to proceed with the Arbitration, did that Government proceed with the appointment of arbitrators, and begin the arbitration proceedings.

(2) Julian Expropriation — Newfoundland Mining Tax

Your Company has been able to obtain a hearing of these matters in the Courts of Newfoundland. The required evidence and other related points of law are currently being

presented to the Newfoundland Court of Appeal. As no evidence has been taken in the Lower Court and by special procedures, the Government moved the case into the Appeal Court; evidence to establish the facts is expected to be heard in that Court as well as arguments as to the points of law on constitutional and other legal grounds.

Your Company has contested in the Courts in Newfoundland the expropriation, without just compensation by the Province of Newfoundland, of the Julian Iron Ore Deposits that have been discovered and outlined through your Company's expenditures and exploration.

Your Company also instituted legal action in respect of the 20% mineral tax imposed by the Province of Newfoundland in 1975, that drastically reduced your Company's returns from the Wabush Lake Iron Ore development contrary to previous Statutory Agreements between Javelin and that Government. Your Company asserts that the expropriation and the tax are unconstitutional and discriminatory. Your Company also asserts in court actions that these enactments of the Province breach the Province's statutory undertakings and contracts with Javelin. In addition the Canadian Government is disallowing as a deduction from taxable income the Company's payment to the Province of Newfoundland of the 20% tax on the net royalties the Company receives from the Wabush Lake Mine. Thus, the Company is paying tax on the amount it is paying to the Province of Newfoundland.

(3) Newfoundland Expropriation and Taxes

Your Company has further given statutory notice of its intent to bring action against the Government of Newfoundland in respect of the Minerals Impost Tax Act of 1978 (effective January 1978). Your Company's principal assertion is that the Government of

Newfoundland breached agreements (approved by the Legislative Assembly) pursuant to which your Company acquired from the Province the shares of the Newfoundland and Labrador Corporation Limited for cash and other valuable considerations. Agreements were enacted into law and became statutes by virtue of their approval by the Legislature of the Province. Based on these Statutory Agreements entered into by the Government and authorized by the Legislature of the Province of Newfoundland, your Company expended millions of dollars in carrying out all of its obligations in reliance upon the terms of these contracts. In violation of the normal standards of good faith, the government has kept the monies, the technical reports and other substantial considerations obtained by it for these exploration rights.

In 1978, your Company surrendered, under protest, concession rights, covering approximately 6,764,160 acres, to minimize the taxes imposed by the Impost Tax Act. While the Company claims damages from Newfoundland, the Company charged \$4,888,187 against its earnings for 1978 to reflect the Company's surrender of the concession rights, under protest. The Company acquired the surrendered concessions, which were to expire in full in March 1985, except as to those areas for which mining leases had been granted, in 1965 under statutory agreements with Newfoundland. In acquiring and exploring the concessions, the Company has invested more than \$5,000,000.

(4) Regulatory Agencies

Another contribution to the massive legal expenditures arose from the defense of the lawsuit brought by the United States Securities and Exchange Commission in the United States District Court for the District of Columbia in 1976. The application for investigation of the Company under Section 114 of the Canada Corporations Act by Canadian authorities was

based, in part, on the allegations in the S.E.C.'s complaint against the Company.

The action brought by the United States S.E.C. in Washington, D.C. against your Company, Mr. John C. Doyle and certain directors and officers of your Company in 1976 has been terminated. The S.E.C. alleged, among other things, that the Company's reports failed to disclose, in violation of the Securities Exchange Act of 1934, the inability of the Company or its auditors to account for or determine whether the Company had received value for the payment of \$6,500,000 to a contractor and for other expenditures in connection with the Cerro Colorado road construction project in Panama, and property acquisitions in 1975 in Central America. The S.E.C. also alleged that the Company had failed to file certain reports on time. Your management is gratified to point out to Shareholders that the S.E.C. complaint has been dismissed in all respects as to Mr. John C. Doyle and your Company's directors and officers. Your Company, however, without admitting or denying the S.E.C.'s allegations, has consented to a court order (i) to file future S.E.C. reports timely; (ii) upon learning that any such report will not be timely filed, to promptly in writing notify the S.E.C. of such fact, stating the principal circumstances preventing the timely filing, and the date on which it expects to file such report; (iii) to maintain records in a manner set out in the order; and (iv) to file with the S.E.C. a Form 8-K report disclosing facts, which had been earlier kept confidential, regarding a surveillance contract between Javelin Export Limited and Owl Investments Limited, questioned by the S.E.C. in its suit. The Company's Form 8-K report disclosed, as determined by a Select Committee established by your Board of Directors, that the services in the main performed under the contract were security services as a management control device, to provide protection of supplies, machinery and

equipment, on the Cerro Colorado project in Panama, and the related access road construction. As a part of the settlement, the Company filed with the S.E.C. a letter from Mr. Doyle, who was not a party to the consent. The letter recites that Mr. Doyle is the beneficial owner of approximately 18% of the Company's outstanding common shares, that he is a consultant to a subsidiary of the Company and that, in light of the above, he may be deemed to be a control person of the Company. In the letter Mr. Doyle agrees to advise the S.E.C. as promptly as practicable should he have reason to believe that he is no longer a control person of the Company and to set forth the basis for this belief. Further, Mr. Doyle agrees to authorize the Company's Coordinator of Legal Affairs to accept service on his behalf of a copy of the judgment entered in the case or any subsequent papers filed therein and deems such service to constitute actual notice of the contents of the judgment or any subsequent papers. The Company agreed to file an appropriate Form 8-K report with the S.E.C. if a change in control as referred to in Mr. Doyle's letter occurs. In all other respects the suit has been dismissed.

Shareholders should be aware that certain of the late filings of which the S.E.C. complained, were failures of Javelin's interim management to file necessary documents and reports. The interim management seized control of your Company on March 6, 1976, and was ousted by the Shareholders on July 30, 1976. Your management points out that these failures included the preparation and issuance of the Annual Shareholders and Form 10-K reports for 1975. Shareholders should further note that the application for the Section 114 investigation of the Company was supported by an affidavit of the Company's Managing Director during the interim management and curiously his affidavit complained of the Company's failure to timely file reports while his interim management was in control.

The Company is now current in its S.E.C. filings.

In 1978, the Honourable William B. Saxbe, former United States Attorney General, became the Special Counsel to the Company's Compliance Committee.

**(5) Bison Petroleum & Minerals Limited/
Dominion Jubilee Corporation Limited**

The 1976 usurping interim management, whose seizure of control of your Company was terminated by Shareholders' vote, was, in large part, instrumental in the procuring of these costly legal actions against your Company. For example, the then Managing Director of your Company appointed by the usurping board members, met with governmental officials of the United States and Canada after being deposed from office by Shareholders. It was his questionable statement in affidavit form which was later presented in the application for the Section 114 Investigation.

The involvement of certain members of the interim board in adverse legal actions is significant. Evidence now available indicates that their goals were to perpetuate their control of your Company, to appropriate to themselves control of subsidiary corporation's assets, and to cause a winding up of your Company. Such results are, in the opinion of the Company's management, not in the best interest of Shareholders.

The winding up effort in 1976 and 1977 appears to have been part of a plan that resulted in the appropriation, to their individual benefit, of control of substantial corporate subsidiaries by certain members of the then Board of Directors. This course of action was entered into on March 6, 1976, when this group of Board members gave an irrevocable proxy in favor of William Wismer, (failing him, to be exercised by Frank Shirriff). This act permitted one individual,

without any fiduciary controls on behalf of the Company to conduct the business and affairs of these corporate subsidiaries and affiliates at his sole will and pleasure. The acts arising from the giving of these proxies were carried out in disregard of directorial obligations of loyalty and fiduciary responsibility.

The program by which this group seized control of the Company's largest subsidiary, Bison Petroleum & Minerals Limited, had as its first step Wismer and board member associates abusing their fiduciary duties by using the Company's shareholdings to vote themselves and their partisans into all directorial and official posts of that company. Their true intentions were promptly revealed the same day, at the first meeting of that Bison Board, when in the presence of the Company's alleged corporate counsel, they proposed and approved a resolution providing for the separation of Bison Petroleum and its assets from your Company. This act was in complete disregard of the trust imposed on them as directors of your Company in that their act would have caused an immediate three million dollar loss to the Company and its Shareholders. This intemperate act was only prevented from being implemented by pressures brought by individuals constituting your present management.

The same group subsequently carried out their original intention by an expansion of their program in February 1977 when they caused Bison Petroleum and Dominion Jubilee to issue to each other substantially all the remaining unissued shares of each company so as to make Bison Petroleum the largest shareholder in Dominion Jubilee and Dominion Jubilee the largest shareholder in Bison Petroleum. This appropriation of control of Bison Petroleum and Dominion Jubilee has been the subject of a substantial volume of litigation and is now being contested by the Company in the Supreme Court of Ontario.

(6) Litigation — Javelin v. Lawler, Kent & Eisenberg

Your Company has brought an action in the U.S. District Court for the District of Columbia against Lawler, Kent & Eisenberg partners, Mr. Meyer Eisenberg and Mr. Leonard J. Rubin. This action asks for substantial damages to the Company resulting from various acts of these two attorneys carried out while acting as Compliance Counsel appointed by your Company under the terms of a consent decree entered by the Company in the U.S. Federal Courts in 1974.

Mr. Eisenberg and Mr. Rubin have countersued seeking substantial damages, claiming the Company has libelled them when the Company informed, in a written communication, its Shareholders of the nature of the basis of the complaints and reasons for their dismissal.

(7) Income Tax

The Corporation has been assessed substantial sums by the Department of National Revenue of Canada in respect of claimed unpaid taxes. Although the Company has secured the payments on these assessments, it is vigorously contesting these assessments through the Courts of Canada and believes it will be to some degree successful, as some aspects of these assessments are clearly excessive.

(8) Section 114 Investigation

Your Company has contested in the Federal Courts of Canada the conduct of Mr. Frederick Sparling while acting in his capacity as an inspector appointed by the Restrictive Trade Practices Board under Section 114 of the Canada Corporations Act. In addition, your Company has contested the propriety of his appointment, his motivation, his lack of impartiality and the bona fides of his original application.

The Company is concerned that Mr. Sparling has contested a subpoena served on him in respect of proceedings taken by the Company in a U.S. court and issued under the provisions of the Canada Evidence Act. Mr. Sparling initiated legal proceedings seeking the revocation of the judgment ordering him to testify. On May 25, 1979 the Quebec Superior Court upheld his technical objections to an order of the Quebec court compelling his testimony. The Company intends to appeal the ruling and/or seek an order in Ontario where Mr. Sparling has his residence. The Company cannot understand his reluctance to testify and calls to the attention of the national business community that the head of the Corporations Branch of the Department of Consumer and Corporate Affairs of Canada is endeavouring to avoid testifying in a court case brought by a Canadian corporation. The Company simply cannot understand the unwillingness of Mr. Sparling to be a witness, as the testimony which the Company seeks is in respect of matters which occurred prior to the appointment of Mr. Sparling as inspector pursuant to Section 114 of the Canada Corporations Act.

(9) Future Outlook

The discovery and development of natural resources, which is and has been the prime business objective of your Company, is a long-term and continuing endeavor that is not being neglected by management. Your Company is more active in the Republics of Honduras and El Salvador than it has been in the past and has taken the necessary steps seeking to assure itself of adequate silver and gold ore reserves to sustain its operations in El Salvador and on which to base a potential new plant in Honduras. The Honduras development of the silver and gold potential at Moramulca is dependent upon the obtaining of an appropriate tax agreement with the authorities in that country in order to develop a proper financial return from the proposed mine.

Your Company is continuing exploration in the Republic of Uruguay and although it has demonstrated the existence of mineralized areas of copper, silver and zinc, it has not as yet been able to establish the existence of the ore reserves necessary for the establishment of producing facilities. A decision may be expected as to whether to continue or terminate this effort in the near future.

Javelin, after having first established itself in the Republic of Chile over 25 years ago, is now engaged in the planning of a mineral exploration program in that country with particular attention to the possibility of exploiting possible gold porphyries.

In Bolivia and elsewhere in Latin America, your Company is exploring mineral prospects. It has been examining each area giving particular regard to protecting itself against possible political upheaval and national takeover of developments resulting from its efforts.

The Company is also seeking to initiate a new exploration program for uranium in the Province of Newfoundland, where your Company has in the energy field potential mineral deposits in

three properties constituting 86 square miles in total located in South Central Labrador, on which radioactivity has been indicated by preliminary surveys carried out jointly by the Federal Government of Canada and the Province of Newfoundland and Labrador.

You will be, in the course of the year, advised from time to time of your Company's progress as material events should warrant.

Respectfully submitted,

On Behalf of the Board of Directors,



Raymond Balestreri,
President

May 25, 1979

Consolidated Balance Sheet

As at December 31, 1978 and 1977

Assets	1978	1977
	(In Canadian Dollars)	
Current		
Cash (Note 11)	\$ 484,352	\$ 858,224
Bank Deposit Receipts and Securities	79,300	4,300
Accounts Receivable, Royalties and Other	3,287,732	4,051,802
Inventories (Note 3)	445,144	335,473
Deposits and Prepaid Expenses	39,277	26,391
Current Portion of Bonds, Republic of Panama	593,000	503,240
	<u>\$ 4,928,805</u>	<u>\$ 5,779,430</u>
Long-Term		
Receivable Under Javelin-Wabush Iron Contract (Note 4)	\$20,141,303	\$20,968,426
Less: Unamortized Valuation Discount	(14,795,561)	(15,601,680)
	<u>\$ 5,345,742</u>	<u>\$ 5,366,746</u>
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)	19,957,024	18,955,924
Funds in Trust (Note 13(b))	1,461,080	—
	<u>\$30,593,180</u>	<u>\$28,152,004</u>
Investment and Advances		
Associated Companies (Note 8)	\$ 3,134,291	\$ 3,128,720
Non-Consolidated Subsidiaries (Note 9)	3,254,583	3,239,832
Other	80,540	70,349
	<u>\$ 6,469,414</u>	<u>\$ 6,438,901</u>
Fixed		
Property, Plant and Equipment — at Cost (Note 10)	\$ 1,720,047	\$ 1,364,051
Less: Accumulated Depreciation	(824,240)	(723,601)
	<u>\$ 895,807</u>	<u>\$ 640,450</u>
Mineral Rights, Leases, Permits and Concessions, Including Exploration Costs (Note 21)	<u>\$ 8,066,155</u>	<u>\$ 8,547,198</u>
	<u>\$ 8,961,962</u>	<u>\$ 9,187,648</u>
Other		
Deferred and Other Charges	\$ 64,158	\$ 86,484
Unamortized Expenses (Note 21)	7,121,805	8,987,861
Excess of Cost Over Book Value of Investment in Subsidiaries (Note 21)	—	2,380,304
	<u>\$ 7,185,963</u>	<u>\$11,454,649</u>
	<u>\$58,139,324</u>	<u>\$61,012,632</u>

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

Liabilities

	1978	1977
	(In Canadian Dollars)	
Current		
Bank Advance	\$ 17,359	\$ 34,034
Accounts Payable	7,119,475	5,013,149
Liability Arising from Litigation Settlement (Note 15(a))	—	796,752
Bank Loan Secured (Note 11)	118,600	109,400
Current Portion of Long-Term Debt	1,580,582	942,570
Estimated Income Taxes Payable (Notes 13 and 20)	700,000	200,000
	\$ 9,536,016	\$ 7,095,905
Long-Term		
Loans Payable — Secured (Note 12)	\$ 7,264,482	\$ 5,447,715
Mortgage and Other — Secured (Note 12)	106,421	114,326
	\$ 7,370,903	\$ 5,562,041
Less: Current Portion	1,580,582	942,570
	\$ 5,790,321	\$ 4,619,471
Due to Shareholder (Notes 13(a) and 25(c))	3,011,919	2,919,554
	\$ 8,802,240	\$ 7,539,025
DEFERRED — Advance Royalty	\$ 18,000	\$ 17,000
MINORITY INTEREST	\$ 33,598	\$ 60,942

Contingent Liabilities, Commitments and Other Matters (Notes 13, 14, 15, 16 and 25)

Shareholders Equity

Capital Stock (Notes 17 and 25)

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
	\$43,181,647	\$43,181,647
Retained Earnings (Deficit)	\$ (3,432,177)	\$ 3,118,113
	\$39,749,470	\$46,299,760
	\$58,139,324	\$61,012,632

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, 1978 and 1977

	(In Canadian Dollars)
(Deficit) — December 31, 1976	\$ (3,237,371)
Net Income for 1977	6,355,484
Retained Earnings — December 31, 1977	\$ 3,118,113
Net (Loss) for 1978	\$ (6,550,290)
(Deficit) — December 31, 1978	<u>\$ (3,432,177)</u>

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

Consolidated Statement of Operations

For the Years Ended December 31, 1978 and 1977

	1978	1977
	(In Canadian Dollars)	
Revenue		
Gross Royalties Earned on Iron Ore (Note 19)	\$ 6,273,679	\$ 7,710,910
Sales of Bullion	1,853,752	1,013,719
Interest and Other	1,660,205	1,566,176
Income under Javelin-Wabush Iron Contract	806,119	1,016,345
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract (Note 4)	—	5,366,746
	<u>\$10,593,755</u>	<u>\$16,673,896</u>
Cost and Expenses		
Direct Cost of Royalties Earned —		
Amortization	\$ 623,081	\$ 628,909
Provincial Royalties and Taxes	1,839,504	2,201,892
Royalties — Knoll Lake Minerals Limited (Note 19)	1,155,018	1,477,128
	<u>\$ 3,617,603</u>	<u>\$ 4,307,929</u>
Cost of Sales	\$ 1,735,855	\$ 1,106,544
Administrative and General	6,045,809	4,888,618
Marketing	349,288	287,868
Interest — Long Term Debt	1,034,039	542,394
Interest — Other	19,123	72,951
Depreciation	101,307	61,718
	<u>\$12,903,024</u>	<u>\$11,268,022</u>
Operating Profit (Loss)	<u>\$ (2,309,269)</u>	<u>\$ 5,405,874</u>
Other Income		
Gain on Foreign Currency Conversion	\$ 1,120,931	\$ 765,310
Income (Loss) Before Income Taxes and Extraordinary Item	<u>\$ (1,188,338)</u>	<u>\$ 6,171,184</u>
Provision for Income Taxes (Notes 13 and 20)	\$ 500,000	\$ —
	<u>\$ (1,688,338)</u>	<u>\$ 6,171,184</u>
Extraordinary Item (Note 21)	<u>\$ (4,861,952)</u>	<u>\$ 184,300</u>
Net Income (Loss) for the Year	<u>\$ (6,550,290)</u>	<u>\$ 6,355,484</u>
Earnings Per Share		
<i>Income (Loss) per Share</i>		
Income (Loss) Before Extraordinary Item —		
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	\$ —	\$ 0.75
Income (Loss) Exclusive of Above	(0.23)	0.11
	<u>\$ (0.23)</u>	<u>\$ 0.86</u>
Extraordinary Item	(0.68)	0.03
<i>Net Income (Loss) for the Year</i>	<u>\$ (0.91)</u>	<u>\$ 0.89</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, 1978 and 1977

	1978	1977
	(In Canadian Dollars)	
Sources of Working Capital		
Funds from Operations		
Income (Loss) Before Extraordinary Item	\$ (1,688,338)	\$ 6,171,184
Add Charges (Deduct Credits) Not Affecting Working Capital:		
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	\$ —	\$ (5,366,746)
Depreciation	101,307	61,718
Amortization	680,755	686,052
Mining Rights and Exploration Costs Written Off	173,120	184,374
Interest Due to Shareholder	356,119	251,347
Foreign Exchange (Gain)	(940,589)	(1,068,453)
Other	(9,482)	16,013
Total Provided from (Used in) Operations, Excluding Extraordinary Item	\$ (1,327,108)	\$ 935,489
Extraordinary Item (Note 21)	\$ (4,861,952)	\$ 184,300
Less: Not Affecting Working Capital	4,861,952	(184,300)
	\$ —	\$ —
Total Provided from (Used in) Operations	\$ (1,327,108)	\$ 935,489
Redemption of Bonds	\$ 593,000	\$ 489,440
Increase in Long Term Debt	2,298,000	4,274,075
Increase in Advance Royalty	1,000	1,250
Reduction on Receivable Under Javelin-Wabush Iron Contract	21,004	—
	\$ 1,585,896	\$ 5,700,254
Uses of Working Capital		
Funds Deposited in Trust	\$ 1,461,080	\$ —
Increase in Advances to Associated Companies	5,571	63,516
Increase in Advances to Subsidiary Companies	3,130	38,820
Increase in Other Advances	8,214	19,831
Acquisition of Fixed Assets	360,848	169,363
Increase in Mineral Rights and Exploration Costs	828,376	1,106,691
Increase in Unamortized Expenses	150,043	482,539
Increase in Deferred Charges	1,357	2,854
Repayment of Amount Due to Shareholder	477,363	273,089
Reduction in Long-Term Debt	1,580,650	942,571
	\$ 4,876,632	\$ 3,099,274
Decrease (Increase) in Working Capital Deficiency	\$ (3,290,736)	\$ 2,600,980
Working Capital (Deficiency) — Beginning of Year	(1,316,475)	(3,917,455)
Working Capital (Deficiency) — End of Year	\$ (4,607,211)	\$ (1,316,475)
Increase (Decrease) in Components of Working Capital		
Current Assets		
Cash	\$ (373,872)	\$ 628,085
Bank Deposit Receipts and Securities	75,000	(50,000)
Accounts Receivable, Royalties and Other	(764,070)	859,925
Inventories	109,671	(23,720)
Deposits and Prepaid Expenses	12,886	(4,817)
Current Portion of Bonds, Republic of Panama	89,760	68,940
Increase (Decrease) in Current Assets	\$ (850,625)	\$ 1,478,413
Current Liabilities		
Bank Advance	\$ 16,675	\$ 90,327
Accounts Payable	(2,106,326)	(1,187,156)
Liability Arising from Litigation Settlement	796,752	378,248
Bank and Other Loans Secured	(9,200)	1,707,175
Current Portion of Long-Term Debt	(638,012)	133,973
Estimated Income Tax Payable	(500,000)	—
(Increase) Decrease in Current Liabilities	\$ (2,440,111)	\$ 1,122,567
Decrease (Increase) in Working Capital Deficiency	\$ (3,290,736)	\$ 2,600,980

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

Notes to Consolidated Financial Statements

DECEMBER 31, 1978

Unless the context otherwise requires, "Javelin" means Canadian Javelin Limited and "Company" means Javelin and all its Subsidiaries. "Subsidiary" of a corporation means a company in which such corporation directly or indirectly owns more than 50% of the outstanding voting stock.

NOTE 1 Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Javelin and all of its subsidiaries, except for Bison Petroleum & Minerals Limited (a 61% owned subsidiary) (for reasons explained in Note 15(t)(1) and three of its subsidiaries, Gordon Holdings Limited, Bison Brewing Company Limited and Oltenia, S.A. (See Note 15(v)). The investment in shares of Bison Petroleum & Minerals Limited is carried on 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. All significant intercompany accounts, transactions and profits have been eliminated in consolidation.

(b) Currency Translation

The method of accounting for foreign currency translation is that foreign inventories stated at cost, property and equipment, exploration and development costs and unamortized expenses are translated at historical rates; receivables, inventories stated at market and payables are translated at current rates. Exchange gains and losses are given immediate recognition in statement of operations. The foreign exchange conversion rates of U.S. dollars were as at January 1, 1977, \$1.01, December 31, 1977, \$1.094 and December 31, 1978, \$1.186.

(c) Inventories

Inventories consist of mining supplies and supplies in transit. Mining supplies are stated at average cost and 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 declining balance methods. Annual rates applied to major classes of property and reflected in the accompanying financial statements are summarized below:

Buildings	5% to 11%
Machinery	11% to 20%
Office, Engineering and 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

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

The costs of mineral rights, leases, permits and concessions including 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.

(ii) Unamortized Expenses

The unamortized expenses on mineral leases of the Wabush project, amounting to \$6,810,367 (\$7,410,964 in 1977), are being amortized on the straight line basis over twenty-five years. The unamortized expenses amounting to \$303,115 (\$319,415 in 1977) of Minas San Cristobal, a subsidiary, are being amortized over an eight year period.

An amount of \$8,323 (\$1,257,482 in 1977) relating to subsidiaries in exploratory stage is not being amortized. (See Note 21 for write-off as extraordinary item in 1978).

(f) Earnings per Share

Earnings per share are calculated by using the weighted monthly 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 18).

NOTE 2 Reclassification of 1977 Financial Statements

Certain amounts in the December 31, 1977 financial statements have been reclassified to conform with the presentation of similar amounts in the December 31, 1978 financial statements.

NOTE 3 Inventories

Inventories as at December 31 comprised of:

	1978	1977	1976
Mining Supplies ...	\$227,007	\$187,937	\$235,644
Mining Supplies in Transit	218,137	147,536	123,549
	<u>\$445,144</u>	<u>\$335,473</u>	<u>\$359,193</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 \$0.19274 per ton at December 31, 1978 (\$0.18316 at December 31, 1977), 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 the Company 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 will be taken into income as payments under the Javelin-Wabush Iron Contract are received.

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 13.)

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. The Company contends that, under the terms of the agreement, the full amount of \$3,779,334 is arbitrable and payable

under the Newfoundland Judicature Act. Notice of arbitration was filed and a Company arbitrator was appointed. The Government notified the Company that it considered the notice of arbitration to be defective and refused to appoint its arbitrator. Upon application made by the Government of Newfoundland in 1976, the Supreme Court of Newfoundland, by judgment dated October 4, 1976, rejected the position of the Government and ruled that it should appoint its arbitrator forthwith and proceed with the arbitration.

On December 13, 1976, Government representatives advised the Company that although the Government intended to proceed with the arbitration, it desired further documentation of the various items in dispute prior to the commencement of formal arbitration proceedings, with a view to removing some or all of the items from dispute. On February 8, 1977, it was agreed that the Company would present further documentation before proceeding to formal arbitration. On February 16, 1978, representatives of the Company presented documentation and evidence substantiating most of the material items in dispute to representatives of the Government who committed themselves to providing within a short delay, additional explanations in respect of the reasons which formed the basis for the rejection of the Company's claims and agreed to account for the sum of \$268,921 which have been withheld from the sum the Government recognizes as being due to the Company. The Company did not receive the explanations or accounting from the Government as promised. On April 6, 1978, the Company sent a formal notice to the Government to name its arbitrator, and the Government named Clyde K. Wells, Q.C., as its arbitrator. Upon the application of the Company, on October 5, 1978, Gordon N. Kent, B.Eng., LL.B., was named by the Supreme Court of Newfoundland as the third Arbitrator.

At a preliminary meeting of the Arbitration Board which was held on November 24, 1978, the parties agreed that the first phase of the Arbitration would deal with twenty-five items in dispute having a total value of \$3,073,445. The Company anticipates that the remaining arbitrable items will be dealt with by the Arbitrators in a second phase of the Arbitration. Such disputed items as the parties agree are not arbitrable will be claimed in an action to be commenced against the Government.

Hearings in respect of the first phase of the Arbitration were held in Montreal during the week of January 16, 1979. Further hearings will take place in St. John's, Newfoundland.

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

In the opinion of management and the Company's 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, the Company 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 at present 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 Reversion Act and the Newfoundland Mining and Mineral Rights Tax Act of 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, 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 appealed this decision, but the appeal has been dismissed.

On April 26, 1978, the Company 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.

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

On August 8, 1978, under the judicature law, the Province of Newfoundland referred two questions to the Appeal Court of Newfoundland in effect 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. The case has been set for hearing in late April 1979.

Due to the uncertainty with regard to realizing the Company's investment of \$3,549,271 in the Julienne Lake Property, an allowance of \$2,799,271 was provided for in 1976 to write-off the difference between the investment in the project and the maximum amount of consideration to be allowed.

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 made concurrently with the signing of the agreement. The balance of \$18,600,000 (U.S.) 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.

The unredeemed balance of the foregoing bonds has been pledged with Banque Nationale de Paris as collateral for loans in the amount of \$7,116,000 at December 31, 1978 (\$4,376,000 at December 31, 1977). (See Notes 11 and 12.)

NOTE 8 Investment and Advances in Associated Companies

	1978	1977
Dominion Jubilee Corporation Limited (Including advances of \$399,507 and \$397,886 at December 31, 1978 and 1977 respectively) (a)	\$2,381,656	\$2,380,082
Norlex Mines Limited (Including advances of \$552,368 and \$549,862 at December 31, 1978 and 1977 respectively) (b)	751,144	748,638
Others (advances only) ..	1,491	—
	<u>\$3,134,291</u>	<u>\$3,128,720</u>

(a) Dominion Jubilee Corporation Limited (See Note 15 (t)(1)).

(b) Norlex Mines Limited is in the exploratory stage of its operations and its principal assets consist of mining rights and leases and of accumulated exploration expenses related thereto. The Company carries its investment in Norlex Mines Limited on the cost basis. Of the 6,073,163 shares of Norlex Mines issued and

outstanding at December 31, 1978 and 1977, 1,096,419 shares (18%) were held by the Company. Of the foregoing shares 477,000 shares are held in

escrow. The activities of Norlex Mines Limited during 1978 and 1977 have had no material effect on the Company's financial statements.

NOTE 9 Investment and Advances in Non-Consolidated Subsidiaries

	Investment & Advances		Accumulated Loss		Net Investment & Advances	
	1978	1977	1978	1977	1978	1977
Bison Petroleum & Minerals Limited (a)	\$4,026,964	\$4,013,778	\$ 902,383	\$ 902,383	\$3,124,581	\$3,111,395
Bison Brewing Company Limited (b)	\$ 76,993	\$ 76,042	\$	\$	\$ 76,993	\$ 76,042
Oltenia, S.A. (c)	\$ 53,009	\$ 52,395	\$	\$	\$ 53,009	\$ 52,395
	<u>\$4,156,966</u>	<u>\$4,142,215</u>	<u>\$ 902,383</u>	<u>\$ 902,383</u>	<u>\$3,254,583</u>	<u>\$3,239,832</u>

- (a) Bison Petroleum & Minerals Limited is a 61% owned subsidiary of the Company (See Note 15(t)(1)).
- (b) 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 special 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 Canadian Javelin Limited.
- (c) Oltenia, S.A., a Panamanian company, is owned $\frac{2}{3}$ by Bison Petroleum & Minerals Limited and $\frac{1}{3}$ by Javelin.

NOTE 10 Property, Plant and Equipment

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

	1978	1977
Land	\$ 18,000	\$ 18,000
Buildings	163,775	162,287
Machinery and Equipment	556,337	342,863
Automobiles and Trucks ..	153,595	90,018
Office, Engineering and Production Equipment ..	626,659	548,921
Furniture and Fixtures	45,799	17,652
Leasehold Improvements ..	66,226	48,721
Construction in Progress ..	89,656	135,589
Property, Plant and Equipment — at Cost ...	\$1,720,047	\$1,364,051
Less: Accumulated Depreciation and Amortization	<u>(824,240)</u>	<u>(723,601)</u>
	<u>\$ 895,807</u>	<u>\$ 640,450</u>

NOTE 11 Short Term Borrowings

	1978	1977
Bank Loan — 9%	<u>\$ 118,600</u>	<u>\$ 109,400</u>

The average of the month-end borrowings during the year 1978 was \$114,300 and for the year 1977, \$662,029. The highest of the month-end borrowings during the year 1978 was \$114,300 and for the year 1977, \$1,626,656.

Pavonia, S.A. has deposited \$100,000 (U.S.) cash with the bank as security for this bank loan.

NOTE 12 Long-Term Debt

	1978	1977
Central States Pension Fund (a)		
8½% — Last Payment due June 22, 1978	\$ —	\$ 141,815
7 % — Last Payment due August 1, 1978	—	246,150
6½% — Last Payment due January 25, 1979	148,482	683,750
Royal Trust Company (b)		
12% — Last Payment due July 15, 1981	\$ 102,331	\$ 110,236
Banque Nationale de Paris (c)		
3% — Over the London Inter Bank Rate	\$7,116,000	\$4,376,000
Other Non-Interest Bearing with No Maturity Date	\$ 4,090	\$ 4,090
	<u>\$7,370,903</u>	<u>\$5,562,041</u>
Less: Debts Maturing Within One Year, Included in Current Liabilities	<u>1,580,582</u>	<u>942,570</u>
	<u>\$5,790,321</u>	<u>\$4,619,471</u>

- (a) Secured by an assignment of royalties from Wabush Mines with quarterly payments including accrued interest. The balance due on January 25, 1979 was subsequently paid and the assignment released.
- (b) Mortgage payable secured by real property (carried at cost of \$133,944) repayable in monthly

instalments of \$1,702, including principal and interest.

- (c) Bank loan secured by an assignment of Royalties from Wabush Mines and by the bonds, Republic of Panama (carried at \$20,550,024) (See Note 7). Repayment to be made in quarterly instalments to January 25, 1984 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 (See Note 19).

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

1979	\$1,580,582
1980	1,432,854
1981	1,506,977
1982	1,423,200
1983	1,423,200

NOTE 13 Contingent Liabilities

- (a) In March 1979 John C. Doyle secured to Revenue Canada the balance (consisting of accrued interest on Canada 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 1978, by Javelin Export Limited (which balance is guaranteed by Pavonia and Javelin), and Pavonia assigned to Revenue Canada sufficient amounts from its right 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. Ltd. (See Note 4) in partial fulfillment of its obligation to provide collateral security to Mr. Doyle (See Note 25), 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, and only then, the assignments will be terminated and all securities released.

As the balance claimed from Mr. Doyle has been reduced by judicial determinations and substantial payments to \$1,989,376, the letters of demand of Revenue Canada on Javelin have now effectively been limited to that amount and as payment of its claim in respect of Mr. Doyle has been fully secured by the assignments and the other securities held, Revenue Canada will withdraw (without prejudice) the lawsuit filed against Javelin claiming Javelin had failed to comply with the letter of demand.

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, if any, the balance claimed will be reduced.

- (b) The Canadian Department of National Revenue 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 the Department utilized deductions attributable to pre-production exploration expenses to off-set the inclusion of additional items of income for those years. The Government 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, the Department 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.

Javelin has filed objections to these assessments by the Department. The amount of the tax assessed and demanded was \$1,212,743, plus interest of \$198,586 to November 25, 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 (1970-73) to off-set the income for the year 1974 resulting from inclusion of other items of income.

The assessment as disclosed only relates to the Federal Tax authorities 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 two year 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 the Department of National Revenue to apply on Javelin's account.

- (c) On December 11, 1978, The Canadian Department of National Revenue issued notices of re-assessments 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 re-assessed by Revenue Canada in December 1978 are \$634,348 for 1975, \$1,959,789 for 1976 and \$1,725,432 for 1977 plus accrued interest of \$588,418 to December 11, 1978. Writs issued by the Federal Court of Canada were obtained by Revenue Canada concurrently with the issuance of these assessments for garnishee orders on Javelin's assets, (including the payments to Javelin from its Wabush Lake Mine Lease) to secure the payments of the assessments. Javelin has filed Notice of Objections 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 (See Note 13(b) & Note 4) which Javelin's tax counsel believes to be non-taxable (See Note 13(b));
- (ii) The addition to taxable income of \$933,578 of expenses deducted by Javelin, which amounts have been added back twice in the re-assessments, 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 deduction by virtue of Pavonia's expenditures of prior years and otherwise.
- (iv) The inclusion in taxable income as natural resource profits of Javelin's net royalties under the Wabush Mine Lease. Javelin is entitled to a 25% deduction on such profits, which deduction has not been considered by the Government in calculating the reassessments. The total amount of this deduction for the applicable years 1976 and 1977 is approximately \$2.9 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 its 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 on 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 and 15(n).)
- (y) Also disallowed by Revenue Canada as deductions from earned income are payments Javelin has made pursuant to the Agreement and Act under which Javelin is required to pay to the Newfoundland Government as additional royalty due because of an increase in the price of old-range non-Bessemer ore. (See Note 15(n).)
- (vi) Disallowance of the settlement and fees of the shareholders litigation (See Note 15(a)(b)), of approximately \$1,750,000 which amount Javelin maintains to be deductible.

Javelin maintains that it has available \$4,420,693 of pre-production exploration expenses recorded by wholly-owned subsidiaries that could be utilized to reduce Javelin's assessed taxable income. This amount has not been considered in the Federal Tax Assessments.

The assessments as disclosed only relate to the Federal Tax authorities 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) Javelin has provided for an additional amount of \$500,000 in the current year in respect of any liability that may result from the assessments described in Note 13(b) and 13(c). This brings the total liability provided for in respect of income taxes to \$700,000, which is considered to be sufficient.
- (e) On March 5, 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, as well as taxes which are assessed from year to year until all such taxes are paid. (See Note 13(c).) The agreement provides that Javelin will pay \$150,000 in March of 1979 and in addition for the fiscal years beginning January 26, 1979 will pay to 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 and, (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.

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 years already assessed (1975, 1976, 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 and 1977 assessments.

Under the agreement Javelin retained full right to contest these assessments and intends to continue to contest them. Notices of Objection to the assessments were timely filed, March 2, 1979. The payment by Javelin under the agreement is secured by assignment of Javelin's rights under the Wabush Mine Royalties (See Note 19) 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 14 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. have guaranteed this contract.
- (b) Javelin has entered into the following minimum rental agreements:

	December 31, 1978	December 31, 1977
Office Leases for 1978	\$ —	\$64,080
Office Leases for 1979	73,200	21,360
Office Leases for 1980	24,400	—

Rent expenses for the year 1978 for leased office space was \$72,972 (\$67,660 for 1977). The Company has no significant capital leases.

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 amount of \$72,486 in any one year.

Payment under these agreements amounted to \$42,861 for 1978 and \$39,960 for 1977. Per actuarial valuation, the present value of the retirement benefits amounts to \$518,302 (See Note 18 for reconciliation with generally accepted accounting principles in the United States).

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. On October 17, 1975, Javelin entered into a stipulation of settlement for \$1,350,000 (U.S.) (out of which legal fees of plaintiffs of \$260,000 (U.S.) and disbursements of \$10,710 (U.S.) fixed by the court, are to be paid), and further requiring Javelin to bear all expenses of implementation and payment.

Pursuant to a resolution of the Board of Directors Messrs. Doyle and Wismer are entitled to call upon Javelin for indemnification of their liability.

On June 30, 1976, the court issued its opinion and on August 9, 1976 entered its order and judgment approving the settlement and ordering Javelin to pay out of its royalties into a settlement fund five unequal quarterly instalments totalling \$1,350,000 (U.S.) commencing November 1976 through and including November 1977.

The order and judgment further provided that all instalment payments into the fund were to be held in escrow until the order and judgment become final, at which time the fund and all interest thereon were to be paid over to the attorneys for the plaintiffs for distribution to the class.

Certain appeals were taken from the said order and judgment. On April 6, 1977, on the appeal brought by a Samuel Sloan, the United States Court of Appeals for the Second Circuit affirmed the order and judgment. Another appeal has been withdrawn and dismissed and another was withdrawn with a stipulation permitting renewal after further hearings in the District Court on the claim of that appellant which had not yet been held.

Javelin has made full payment for the settlement of \$1,350,000 (U.S.) and has recorded this 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.

- (b) **Lurie et al v. Canadian Javelin Limited, et al**
An Action was filed December 7, 1973, in the Circuit Court of Cook County, Illinois, purporting to be 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.

A stipulation of settlement has been entered into between the defendants and Javelin and the plaintiff pursuant to which a Class consisting of those who purchased Javelin's shares between November 1, 1969, and December 19, 1974, who suffered a loss thereby, and (1) were not included in the definition of the class in Bomine (Note 15(a)), or (2) were included

in the Bonime class but who requested to be excluded from that Class, or (3) were members of the Class certified in Bonime who submitted a proof of claim for participation in the Bonime settlement which was rejected without proper notice to the claimant of his right to a hearing, or (4) who purchased Javelin's shares during the period from October 25, 1973, to December 19, 1974, provided these (Clause 4) purchases were by or for the benefit of persons who on the date of purchase were residents of the United States, its territories or possessions. Insiders as defined in the stipulation are excluded from the settlement.

Each Lurie class member who has sustained a loss will, if the settlement is approved by the court and the judgment of approval becomes final, be entitled to receive from the defendants a sum computed by multiplying the gross loss he has sustained under the formula set out in the stipulation by a factor which will be determined by the amount of the recognized losses determined as having been suffered by those filing claims in the Bonime action and dividing that amount into the amount remaining in the Bonime settlement fund (after deduction of attorney's fees) for distribution to the class, to arrive at the pro rata recovery of Bonime class participants.

The formula for determination of gross loss of Lurie claimants will be the difference between purchase price and the greater of the sales price of the shares or the price of the shares on certain dates on the American or Montreal exchanges depending on the date of purchase, and profits from the sale of shares must be deducted from losses. Pursuant to a resolution of the Board of Directors, Messrs. Doyle and Wismer are entitled to call upon Javelin for indemnification of their liability.

The Circuit Court held a hearing on April 8, 1977, to consider approval of the settlement stipulation, and on April 11, 1977, order and judgment approving this settlement. The stipulation further provides for injunctive relief against violation of the securities laws. Claims were filed and in the opinion of Javelin counsel, considering the number of claims filed, a maximum liability to Javelin will be \$30,000 (U.S.) which has been provided for.

The Court has issued orders allowing to counsel for plaintiffs fees in the amount of \$100,000 of which \$10,000 has been paid in accordance with the court order. Although the Company intends to appeal said allowance of fees, provision has been made in the account for the balance of the fees.

On March 14, 1979 counsel for the plaintiffs advised the court that he intended to seek relief from the court on behalf of those purchasers of shares, if any, who were, because of the notice in Bonime, led to believe they were not members of the Bonime class. The court granted leave to said counsel to file this motion which is set for April 20, 1979. The number of shareholders and the number of shares purchased in respect to which plaintiffs' counsel seeks relief

cannot be currently determined. In the opinion of counsel to Javelin, the proper forum for such relief is the United States District Court for the Southern District of New York in the Bonime Case.

- (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 and permanent 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 the Company 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 three years, only slight development of plaintiffs case has taken place. Javelin counsel is of the opinion at this time that there is no merit to the claim and that Javelin should prevail.
- (e) **Goldstone v. Canadian Javelin Limited**
An Action was instituted in New York State Court to recover either 80,000 shares of common stock of Dominion Jubilee Corporation Limited, an associated company, or its value, as compensation for legal services. The action has been pending since 1969 and has been inactive for more than five years. Javelin disputes the claims and it is the opinion of Javelin counsel that the action is without merit.
- (f) **Robert A. Semonian v. John C. Crosbie, et al**
An Action instituted in October 1974, in the United States District Court of Massachusetts names Javelin as a technical defendant. The suit is against the Government of Newfoundland for the recovery of amounts allegedly due Javelin in connection with the sale of the Linerboard Project and in addition, for damages for depriving Javelin of interests in the Province of Newfoundland. The court on August 5, 1976, stayed further proceedings in this action pending resolution of the application of the

Government of Newfoundland to the Supreme Court of Newfoundland, and recently adjourned further proceedings pending the Arbitration (See Note 5).

(g) **Canadian Javelin Limited v. Lawler, Kent & Eisenberg, et al**

On May 19, 1978 Javelin instituted an action in the United States District Court for the District of Columbia against Mr. Eisenberg, his law firm, Lawler, Kent & Eisenberg, and the partners in that firm, alleging fraud, conspiracy to commit fraud, negligence, breach of fiduciary duty, breach of contract and conversion in connection with the carrying out of the office of Special Counsel to the Compliance Committee by Mr. Eisenberg, his partner Mr. Rubin, and the firm, seeking damages in excess of \$11,000,000 including punitive damages. The defendants have filed a counter-claim for defamation and debt, seeking \$2,500,000 compensatory damages, \$15,000,000 as punitive damages and \$37,838 as balance due for services rendered. In the opinion of counsel, Javelin will prevail on at least a portion of its claim, and will prevail on the counter-claim.

(h) **Canadian Javelin Limited v. David A. Brooks, et al**

On October 25, 1977, Javelin brought an action in the United States District Court for the Southern District of New York, requesting an injunction against violations of the Securities Exchange Act of 1934.

The Complaint alleges that the defendants solicited a proxy consent and permitted their names to be used for solicitation of proxies in violation of the Securities Exchange Act of 1934, and that they misrepresented material facts and omitted to state facts necessary to prevent the statements made from being misleading.

The Complaint charges that the purported "Canadian Javelin Limited Stockholders Protective Committee" which sent out mailings in November and December 1977, was acting in conspiracy with defendants Messrs. Wismer, Ayre, Wylie, Shirriff, Smith and Schemilt, that the defendants Messrs. Wismer and Brooks, in providing for the exchange of shares between Bison Petroleum & Minerals Limited ("Bison") and Dominion Jubilee Corporation Limited in February 1977, constituted a fraud on Javelin and its shareholders, and that Mr. Wismer and the other defendants acting with him hindered, delayed and obstructed the filing of Javelin's reports with the U.S. Securities and Exchange Commission ("SEC") by refusing to supply it with Bison's financial statements.

On December 1, 1978, the United States District Court of the Southern District of New York entered a preliminary injunction against all defendants restraining and enjoining them from further violations of the proxy rules and ordering the repayment to the persons who contributed to the Committee all sums so received with interest. The Court dismissed the claim against defendant Wismer et al, in connection with the Bison-Jubilee exchange of securities on the grounds that it lacked jurisdiction of the subject

matter, and declined to enter an injunction against defendant Wismer et al. for hindering, delaying or obstructing of making or filing by Javelin of periodic reports with the SEC.

On January 2, 1979, Javelin filed a Notice of Appeal to the United States Court of Appeals for the Second Circuit from those portions of the decision below in which relief was denied to it. On January 25, 1979, the District Court entered a judgment which varied from its decision only in that instead of enjoining Wismer et al. by name in connection with the proxy violations, it enjoined Brooks, Strolovitch and Mitchell and all persons acting in concert with them from continuing such violations, and Javelin has under consideration an amendment of the Notice of Appeal to reflect the changes in the judgment.

(i) **Canadian Javelin Limited v. Securities and Exchange Commission**

In 1977, Javelin requested a 30 day extension to file its Form 10-K for 1976. The SEC denied the request. Javelin petitioned for review by the United States Court of Appeals for the District of Columbia Circuit. Oral argument is scheduled for March 27, 1979.

(j) **Canadian Javelin Limited v. John C. Doyle, W. H. Roxburgh, and H. Ducharme**

On April 23, 1976, Javelin brought an action in the Quebec Superior Court against John C. Doyle, W. H. Roxburgh and H. Ducharme seeking damages in the amount of \$1,452,500 (plus interest thereon since December 5, 1967) alleging that the principal amount was paid by Javelin on that date to the Banque Romande, a Swiss bank, without Javelin receiving any consideration therefor, as a result of breaches of obligation owing to Javelin by the defendants.

On July 14, 1976, Javelin filed an action in the Quebec Superior Court against John C. Doyle, W. H. Roxburgh and H. Ducharme for damages in the amount of \$3,472,500 with interest, the amount alleged to have been lost by Javelin in connection with the acquisition by Javelin of rights to the Southern Timber Concession in Southern Labrador, resulting from breaches of obligation owing Javelin by the defendants.

On November 12, 1976, Javelin's Board of Directors constituted a Select Committee of three directors to investigate the foundation of the said actions. The Select Committee engaged special Canadian counsel to assist it in carrying out its mandate. The Select Committee and its special counsel undertook an extensive investigation and obtained evidence of witnesses in various parts of the world.

At the conclusion of his investigation special Canadian counsel recommended to the committee that the action in the Southern Timber Concession matter be discontinued as it was not maintainable, that the Banque Romande matter be further explored and investigated by the committee and concurred in the suggestion made that a forum other than the

ordinary courts be utilized in order to resolve the cases as expeditiously as possible.

After further investigation the Select Committee then reported to the Executive Committee of Javelin's Board of Directors, which was also informed that Mr. Doyle, one of the defendants, was agreeable to a submission to arbitration but insisted that Javelin agree that both cases be submitted to a court-ordered arbitration which, under Quebec law, would result in a final and binding court decision.

Javelin's Board of Directors by resolution agreed to arbitration as proposed, as did the other defendants, and Javelin appointed independent special counsel, Mtre. Ross Drouin, Q.C., to represent it in the two arbitrations. On November 23, 1977, by decision and order of the Superior Court, District of Montreal, both cases were referred to supernumerary Judge Henri Masson Loranger, acting as arbitrator, for hearing and decision.

Hearings commenced and took place in Canada, United States and the Republic of Panama. On February 20, 1978, Judge Loranger rendered his decisions and findings.

In the Banque Romande case, Judge Loranger found that Javelin failed to prove the allegations and dismissed its action against the defendants with costs, holding that "the steps taken (by the defendants) are far from being for the purpose of defrauding Javelin but were in the best interests of the latter".

In the Southern Timber Concession case, Judge Loranger dismissed the action against all defendants and awarded costs against Javelin and in favor of the defendants finding "the proof had shown that Javelin did not suffer a loss of any nature whatsoever as a result of the purchase of these timber reserves".

By judgment rendered by the Hon. Mr. Justice Kenneth C. Mackay, the awards of Judge Loranger were homologated as judgments of the Superior Court of the Province of Quebec. The laws of the Province of Quebec provide that the decisions of Judge Loranger are judgments on the merits and became final on March 27, 1978.

(k) **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. Although to date a defence has not been requested by Bison's solicitors, Javelin intends to vigorously contest this action. This amount of liability has been recorded in the Financial Statements of the Company.

(l) **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 1979.

In its defence, 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 judgment of at least \$387,689.

(m) **Quebec Securities Commission v. Canadian Javelin Limited**

On or about September 16, 1976, a complaint was filed by Her Majesty the Queen acting on behalf of the Quebec Securities Commission against Javelin arising out of Javelin's failure to file timely financial statements with the Quebec Securities Commission for the year ended December 31, 1975, and for the period ending June 30, 1976. Such filings were subsequently made, and the Company on March 8, 1979, was assessed the minimum fine of \$1,000.

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

On July 16, 1976, the Province of Newfoundland commenced an action against Javelin in the Supreme Court of Newfoundland. The Statements of Claim alleged that there was due to the Province of Newfoundland the sum of \$532,153, general damages, and costs. The sum claimed relates to Javelin's Wabush Project and is divided into two separate and distinct items.

The sum of \$338,880 was claimed in virtue of the Government-Javelin Taxation (Confirmation of Agreement) (Amendment) Act, 1960, as additional royalty due because of an increase in the Lake Erie price of iron ore. The Province alleged that the Lake Erie price increased during 1975 and that it was entitled to additional royalty totalling \$338,880 with respect to shipments of iron ore concentrates during 1975.

The sum of \$193,273 was claimed in virtue of the Mining and Mineral Rights Tax Act, 1975. The Province alleged that Javelin made royalty payments to Knoll Lake Minerals Limited on July 29, 1975, December 12, 1975 and February 6, 1976, under circumstances which required Javelin to withhold a total of \$193,273 and remit that sum to the Minister of Finance pursuant to Sec. 11(3) of said act.

This action was tried in 1977 and judgment was entered for the Province. Javelin was ordered to pay the sum of \$338,880, with respect to the additional

royalties and \$193,273, with respect to withholding taxes, plus costs. Javelin appealed from the judgment. In December 1978, attachments were issued to enforce collection of the judgment, and the appeal was dismissed on February 1979. The judgment was paid in full in March 1979.

The Province has also demanded payment of additional royalties under the Government-Javelin (Confirmation of Agreement) Taxation Act 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. Provision has been made in the financial statements with respect to the amounts of \$853,663, \$992,153 and \$728,971 which may be due as additional royalty for 1976, 1977 and 1978. The Province may seek to recover an additional sum 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.

With respect to the amounts of \$193,273 (already paid) \$345,577, \$355,262 and \$278,326 (forming the total amount of \$1,172,438) Javelin is entitled to a refund from the amounts withheld from it and paid over by Wabush Mines to the Government of Newfoundland pursuant to the Mining & Mineral Rights Tax Act to the Province. Accordingly, the liability has been duly recorded with an off set contra-entry.

In separate actions (See Note 6) Javelin is seeking a declaration that the Mining and Mineral Rights Tax Act, 1975, is invalid and ultra vires and reimbursement of all sums paid as a result of the imposition of the 20% tax under the Act. 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 Minerals Rights Tax Act, (1975) is ultra vires (See Note 6).

(o) **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 the Company's cross demand which motion to dismiss was denied November 8, 1978 and Mr. Shirriff has appealed from the denial of his motion.

(p) **Securities and Exchange Commission v. Canadian Javelin Limited et al**

In November 1976, the SEC commenced a civil action, and in February 1977 filed therein an amended complaint against Javelin, John C. Doyle, Raymond Balestreri, a Director and President of Javelin, P. J. DeSantis, the Treasurer of Javelin, and General Allard, Messrs. Paredes and Fournier, Directors of Javelin, in the United States District Court for the District of Columbia, claiming violations of the Securities Exchange Act of 1934, and certain rules and regulations thereunder, (collectively the "Exchange Act"), alleging that Javelin had not timely filed reports required under the Exchange Act, and that certain reports filed from 1973 to the time of filing of the amended complaint were false, misleading, and omitted to state facts necessary to make the statements made not misleading. The SEC alleged that Javelin's reports, among other things, failed to disclose the inability of Javelin or its auditors to account for or determine whether Javelin had received value for the payment of \$700,000 to Owl Investments Limited under a 1972 contract, to account for payment of \$6,500,000 to a contractor and other expenditures regarding the road to the Cerro Colorado project, the repudiation of a former officer of his 1974 verification of the road costs relied on by Javelin's auditors in their certification of Javelin's first 1973 financial statements, and his 1976 assertion that his inspection indicated a road cost not in excess of \$1,300,000, the payment of a \$733,974 refund on the road contract applied on the same day towards the purchase price of properties in Honduras and El Salvador the main component of which had allegedly been previously offered to Javelin for \$25,000, that Javelin did not maintain sufficient auditing controls to ensure proper expenditure of corporate funds, and that the representation made in its financial statements that generally accepted accounting principles were being followed was not true in a number of respects, including allegations that Javelin incorrectly recognized extraordinary income of \$419,350 in 1973, and \$155,808 in 1974, that there was no provision in the 1975 financial statements for a \$1,350,000 settlement of a class action agreed to by Javelin in 1975 and approved by the court in 1976 (See Note 15(a)) and for \$2,756,000 representing the excess over of the amount provided for by the Julien Lake Expropriation Legislation (See Note 6). The SEC in the action seeks to enjoin the defendants from violations of the Exchange Act, to compel the filing within seven days of a court order of Javelin's 1975 10-K report, and 1976 10-Q reports, and the appointment of a special master to inquire into and examine the books and records of Javelin, its affiliates and subsidiaries to render a correct accounting of Javelin's position. No monetary damages from Javelin are sought.

The defendants moved to dismiss the amended complaint on the grounds that it does not state a

cause of action under the Exchange Act and that the court lacks jurisdiction over the subject matter. The Court denied Javelin's petition of Mandamus before the Circuit Court of Appeals of the District of Columbia to review this decision. That court concluded that Javelin and the other defendants had not, at that stage of the case, met the burden of showing that their right to relief was clear and indisputable and therefore denied the petition for a Writ of Mandamus without prejudice to further consideration by the District Court and the SEC, which the Appellate Court suggested, to determine whether the scope of discovery might be narrowed without prejudice to the plaintiff's position. The Court of Appeals stated that this did not mean that the court necessarily approved the rulings entered and further stated that the case presents some difficult problems, as in regard to personal jurisdiction, and the court was concerned with the issue of the scope of discovery.

Although the District Court has denied defendants' motion to dismiss the SEC's amended complaint, the District Court reserved to the defendants the right to convert that motion into a motion for summary judgment. To move forward on this motion in preparation for trial, Javelin has been pursuing discovery in the form of depositions, interrogatories and requests for documentary production. While discovery has not yet been completed, a substantial amount has taken place.

In connection with discovery, the SEC moved the District Court for an order compelling the testimony of and documentary production by Javelin's former Special Counsel appointed pursuant to the Consent Decree entered in *Securities and Exchange Commission v. Canadian Javelin Limited et al.* (S.D.N.Y. 73 Civ. 5074 1974), without any limitation afforded by the attorney-client privilege. On January 13, 1978, the District Court granted the SEC's motion to compel. Thereupon, Javelin moved the Court for reconsideration of its decision or, in the alternative, for certification of the issue to the United States Court of Appeals for the District of Columbia Circuit. In an Order filed May 17, 1978, the District Court denied Javelin's motion and concluded, in an accompanying opinion, that the 1974 Consent Decree under which Special Counsel was appointed negates any notion of an attorney-client relationship between Javelin and Special Counsel and any notion of confidentiality with respect to communications made to Special Counsel. Javelin appealed from the May 17, 1978 Order and Opinion of the United States Court of Appeals for the District of Columbia Circuit. Shortly thereafter, Javelin moved the District Court for relief from its May 17, 1978 Order and Opinion, based on newly-discovered evidence.

While the appeal was pending in the United States Court of Appeals, and while the motion for relief was pending before it, the District Court, on November 3, 1978, determined *sua sponte* that venue was

improperly laid in the District of Columbia and that the action should be transferred to the United States District Court for the Southern District of New York. The District Court based its decision to transfer on the grounds that the action is substantially subsumed within the prior action in which the District Court for the Southern District of New York entered a Consent Decree and retained continuing jurisdiction.

In the light of the District Court's decision to transfer, the United States Court of Appeals for the District of Columbia Circuit issued an order to show cause why it should not dismiss Javelin's appeal from the May 17, 1978 Order and Opinion on attorney-client privilege. Both Javelin and the SEC filed responses to the Order to Show Cause. On December 31, 1978, the United States Court of Appeals for the District of Columbia Circuit vacated the May 17, 1978 Order and Opinion and remanded to the District Court for its immediate transfer of the case to the District Court for the Southern District of New York, including the now-pending motion for reconsideration or certification of the January 13, 1978 Order. The United States Court of Appeals, District of Columbia Circuit, issued its December 13, 1978 Order in order to prevent the effects of *res judicata* and collateral estoppel from attaching to the May 17, 1978 Order and Opinion of the District Court and without intimating any view as to the merits of the January 13, 1978 Order.

The case was transferred and is now pending before the District Court for the Southern District of New York. Javelin and the SEC have jointly requested that the Court hold the case in abeyance until April 2, 1979 in view of settlement discussions between Javelin and the SEC. At this stage Javelin is unable to predict whether the case will be settled or will continue to be litigated.

(q) **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 and Javelin counsel the claim is grossly exaggerated.

(r) **Galkin v. Canadian Javelin Limited, et al**

In March 1977, an individual and derivative shareholder suit was brought in the United States District Court for the District of Columbia against the same defendants as those named in the SEC action (See Note 15 (p)). The shareholder action makes certain of the allegations made in the SEC's amended complaint and further alleges that the proxy materials utilized by the Company in connection with its 1974 and 1975 Annual Meetings were false, misleading and omitted material facts required to be stated therein, in order to make such materials not misleading in violation of the rules promulgated under the Exchange Act. The complaint also alleges that the July 30, 1976 Special General Meeting of Shareholders was held without dissemination of

proper corporate information, in alleged violation of the Exchange Act. The Complaint requests, among other things, that the 1974, 1975 and 1976 shareholders' meetings be invalidated, and that a receiver be appointed pending the election of directors at a shareholders' meeting held after transmittal of information required by the Exchange Act. The complaint also seeks monetary damages from the individual defendants and charges them with breaches of fiduciary duty and waste of corporate assets. No monetary damages are sought against Javelin. All the defendants have answered to the complaint and thereafter the case has remained dormant.

(s) **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 of Canada. The order was denied, and Mr. Sparling has appealed.

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 has appealed.

(t) **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 Quebec Holdings Limited, in consideration for the issuance by Bison of 3,276,287 shares of the capital stock of Bison, being all of 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 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 judgment 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. A motion to dismiss the action has been filed and is pending.

(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 circulars 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 Note 15(t)(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 defendants.

(u) 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 settlements entered 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. The action is in the preliminary stage.

(v) 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 Panamanian corporation) owned by Bison. The said judgment condemned Bison to pay to Pavonia costs of the lawsuit which were fixed at \$46,965 (U.S.).

NOTE 16 Other Matters

(a) Road Contract and Prepayment

In 1973 Javelin placed the proceeds from the issue of its Series "B" debentures in the amount of \$6,500,000 with International Oceanic Construction Corporation ("International Oceanic") as a payment on progress billings and prepayment of the balance of the contract price under a contract between Javelin's wholly-owned subsidiary Pavonia, S.A. and International Oceanic for design and construction of a road from San Felix, Province of Chiriqui, R.P. to Pavonia's project site at Cerro Colorado. The contract was terminated in May 1974 at which time there remained a credit to Pavonia, in the amount of \$1,821,450.

Subsequent charges for extras, equipment and other charges reduced this credit to \$863,499 and after the application of a discount of 15% or \$129,525 the net amount of \$733,974 was received in cash on December 15, 1975 (See Note 15(p)). The net proceeds were used as part of the payment for the acquisition of the properties in Honduras and El Salvador (See Notes 15(p) and 16(b)).

In March 1976 the Company's former outside auditors informed the directors that certain information had come to the attention of the auditors to the effect that irregularities had occurred in several aspects of this series of transactions. The information allegedly consisted of an allegation of a then officer and director alleging that the road costs did not exceed \$1,300,000. A request was made by the previous purported Board of Directors on May 7, 1976, that these matters be investigated by a Canadian Federal Law Enforcement Agency, the results of which investigation, if it has been commenced, are not as yet known. A Select Committee of the present Board of Directors appointed on September 7, 1976 made an investigation of these transactions and obtained a certified financial statement of Almora, S.A. from the Panamanian Certified Public Accountant of the contractor. In addition, the Committee obtained a

certification on a review of the books, records and working papers of the contractor's Certified Public Accountant from Buron y Asociados (a partner of the internationally recognized accounting firm of McLintock, Main, Lafrentz & Co.).

The Select Committee reached the conclusion that the allegations of irregularity were without foundation and reported on October 1, 1976, its satisfaction with the substance and execution of the transactions including the contract and termination thereof. Notwithstanding the findings of the Select Committee and its report, the Company's former outside auditors reported that based on certain information of which they became aware, they were unable to satisfy themselves as to the propriety of these transactions and so indicated in their report on the Company's financial statements for the year ended December 31, 1975, and as a result of such information were unable to "determine the financial implications, if any, of any claims that may arise as a result of this information, nor its effect, if any, on the prior years'."

In February 1977, the SEC served an amended complaint on Javelin, including allegations with regard to the road contract as detailed in Note 15(p).

(b) **Honduras and El Salvador Acquisitions**

On December 15, 1975, the Company applied the funds received on that same date from International Oceanic towards the acquisition of certain properties in Honduras and El Salvador whose purchase had been previously authorized by the Board of Directors on June 2, 1975, for a total consideration of \$870,000. It was proposed by the interim board that the value of the properties should be questioned.

A Select Committee of the Board of Directors was formed by order of the Executive Committee on September 17, 1976, to carry out, among other functions (See Note 16(a)), a detailed examination of

the circumstances surrounding the acquisition of the foregoing properties, and reported on October 2, 1976, that it was satisfied that the transactions were regular and that the Company had received fair value with which the former auditors concurred.

The cost of the foregoing properties is included in "mineral rights, leases, permits and concessions including exploration costs," for balance sheet presentation.

NOTE 17 Capital Stock

(a) **Stock Options**

Under Javelin's 1970 Stock Option Plan 180,353 shares of the authorized capital stock were reserved for employees, 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 1980, an option for 1,061 shares per year of service as a director, (a maximum grant of options for 11,610 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 share options granted and exercised under the 1970 Stock Option Plan at December 31, 1978 and 1977 are shown on the accompanying schedule.

OPTIONS OUTSTANDING AT DECEMBER 31, 1978

Date Granted	Number of Shares	Option Price		Market Value at Date of Grant	
		Per Share	Total	Per Share	Total
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
August 1977	11,671	1.49	17,390	1.75	20,424
August 1978	11,671	1.15	13,422	1.35	15,756

OPTIONS OUTSTANDING AT DECEMBER 31, 1977

May 1973	48,828	\$ 7.00	\$341,796	\$ 8.25	\$402,831
May 1973	5,305	8.25U.S.	43,766U.S.	8.25U.S.	43,766U.S.
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
August 1977	11,671	1.49	17,390	1.75	20,424

OPTIONS EXERCISED

				Market Value at Date of Exercise	
Year Ended Dec. 31, 1973	409	\$ 7.00	\$ 2,863	\$17.19	\$ 7,031

No charges to income were made in 1978 and 1977 in relation to stock options.

(b) **Other Matters** (See Note 25)

NOTE 18 Differences in Application of United States and Canadian Generally Accepted Accounting Principles

(a) Net Income Reconciliation	1978	1977
Income (Loss) Before Extraordinary Item per Statement of Operations — as Determined in Accordance with Canadian Generally Accepted Accounting Principles (G.A.A.P.)	\$ (1,688,338)	\$ 6,171,184
<i>Add (Deduct):</i>		
Settlement of Shareholder's Claim	—	(1,293,517)
Adjustment of Amortization of Deferred Liability Under Individual Retirement Agreements (See Note 14(c))	16,082	14,613
Liability Under Retirement Agreement Entered Into During 1978	(230,490)	—
Exchange Adjustment on Retirement Agreement	(38,865)	—
Elimination of liability to "Bison" treated as Extraordinary item under Canadian G.A.A.P.	—	184,300
Income (Loss) Before Extraordinary Item as Determined in Accordance with United States G.A.A.P.	\$ (1,941,611)	\$ 5,076,580
Extraordinary Item (See Note 21)	(4,861,952)	—
Net Income (Loss) as Determined in Accordance with United States G.A.A.P.	<u>\$ (6,803,563)</u>	<u>\$ 5,076,580</u>
Earnings per Share (per United States G.A.A.P.)		
Income (Loss) Before Extraordinary		
Income (Loss)	\$ (0.27)	\$ 0.71
Extraordinary Income (Loss)	(0.68)	—
<i>Net Income (Loss) ...</i>	<u>\$ (0.95)</u>	<u>\$ 0.71</u>

(b) Reconciliation of Retained Earnings (Deficit)	
Deficit per Statement of Retained Earnings as at December 31, 1976	\$ (3,237,371)
Add: Increase in Parent Company's interest in it's Subsidiary Arising from Issuance of Capital Stock by the Subsidiary in 1973 (see Note 18(c))	(419,350)
Liability under Individual Retirement Agreements entered into before December 31, 1975, recorded under United States G.A.A.P.	(280,361)
Less: Settlement of Shareholder's Claim recorded in 1977 under United States G.A.A.P.	1,293,517
<i>Deficit — December 31, 1976, In Accordance with United States G.A.A.P.</i>	<u>\$ (2,643,565)</u>
Net Income for 1977 in Accordance with United States G.A.A.P. (See Note 18(a))	5,076,580
<i>Retained Earnings — December 31, 1977, In Accordance with United States G.A.A.P.</i>	<u>\$ 2,433,015</u>
Net Loss for 1978 in Accordance with United States G.A.A.P. (See Note 18(a))	(6,803,563)
<i>Deficit — December 31, 1978, In Accordance with United States G.A.A.P.</i>	<u>\$ (4,370,548)</u>

(c) In 1973 a subsidiary of Javelin issued capital stock to retire debt. The effect of the change of the 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 increase 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 had been followed, consolidated retained earnings as stated would be decreased by \$419,350 and capital surplus would be increased by \$419,350.

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.

In accordance with G.A.A.P. in the United States, the determination by arbitration of the J. C. Doyle claim would be treated as an expense in 1977. Under Canadian G.A.A.P. the amount has been treated as a prior period adjustment.

NOTE 19 Royalties

- (a) Javelin receives royalties from Wabush Mines of \$0.75 per ton increased in direct proportion to the increase in the published Lake Erie price of old range non-bessemer ore. (\$1.46771 per ton at December 31, 1978, \$1.39339 per ton at December 31, 1977, but not less than \$3,250,000 annually).

These royalties have been assigned to secure the bank loan (See Note 12) and the payment of tax assessments to Revenue Canada (See Note 13(e)).

- (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 ventures 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 will receive as an annual dividend 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.

NOTE 20 Income Taxes

(a) Current Income Taxes

The lack of a provision for income taxes is primarily attributed to:

- (i) The inclusion of non-taxable dividends from a Canadian Corporation in consolidated income.
- (ii) Javelin is entitled to a deduction for resource allowance in arriving at its taxable income.
- (iii) The inclusion in consolidated income of receipts of money under the Javelin-Wabush Iron Contract which Javelin considers to be exempt from taxation.
- (iv) The inclusion in consolidated income of non-taxable unrealized gains on foreign currency conversions.

Income taxes on the undistributed earnings of subsidiaries have not been accrued because of the intent to reinvest such undistributed earnings within the subsidiaries themselves.

The amount of undistributed earnings of subsidiaries for 1978 was \$1,928,572 (1977 —\$1,269,116).

(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 Company has not provided for deferred income taxes in prior years since the amount of unamortized preproduction expenses for income tax purposes was in excess of the amounts recorded in the accounts of the company and therefore, has not recorded deferred tax debits due to lack of virtual certainty of realizing these tax benefits in future years.

As a result of the Federal Tax Assessments, the tax department claims that the Company has a nil balance for unamortized preproduction expenses. This has occurred due to an adjustment made by the income tax authorities reducing prior years accumulated unamortized preproduction expenses in the amount of \$6,947,080 and additional claims utilizing unamortized preproduction expenses due to inclusion of certain items in calculating taxable income for prior years. Javelin is contesting these assessments and the adjustment reducing prior years unamortized preproduction expenses. Javelin maintains that it has \$4,420,693 of exploration and development expenses recorded by subsidiaries which would be an addition to unamortized preproduction expense 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 the Government prevail (See Note 13).

(c) Losses Carry-Forward

Javelin may have available \$5,640,000 of operating losses carry-forward to reduce future income taxes. If not utilized, the carry-forward would expire as follows:

1980	\$ 700,000
1981	1,450,000
1982	440,000
1983	3,050,000

If the Government's position on the tax assessments were to prevail, the carry-forward of operating losses would be eliminated (See Note 13).

NOTE 21 Extraordinary Items

	Extraordinary Income (Losses)	
	1978	1977
(a) Losses resulting from write off of "Nalco" Properties (a)	\$ (4,889,296)	\$ —
Less: Minority's Share	27,344	—
	<u>\$ (4,861,952)</u>	<u>\$ —</u>
(b) Elimination of Liability to Bison (b)	\$ —	\$ 184,300
	<u>\$ (4,861,952)</u>	<u>\$ 184,300</u>

- (a) As a result of the matters described in Note 24, the Company has written off a total amount of \$4,889,296 comprising of \$1,124,569 of Mineral Rights, and Exploration Costs, \$1,361,268 unamortized expenses and \$2,403,459 of excess of cost over book value of Javelin's investment in its wholly-owned subsidiary Newfoundland and Labrador Corporation Limited (See Note 24).
- (b) Income arising from the elimination of a liability to an unconsolidated subsidiary "Bison" resulting from the Bison's non-fulfillment of a contract .. \$ 475,000
 Less: Reduction in Javelin's investment in the unconsolidated subsidiary "Bison" resulting from Javelin's share of the loss sustained by Bison \$ (290,700)
\$ 184,300

The amount of \$475,000 represents the price under an agreement pursuant to which Pavonia, S.A. (a wholly-owned Panama subsidiary of Javelin) was to purchase Bison's 2/3 interest in Oltenia, S.A., a Panamanian company in which the other 1/3 of the outstanding shares are owned by Javelin. A Panamanian court has annulled this agreement. (See Notes 15(t)(2) and 15(v))

NOTE 22 Mining Rights, Ethiopia

In 1972, Javelin through a subsidiary, Artena, S.A., acquired a mineral concession in Ethiopia in partial substitution for a timber concession acquired through Société Transshipping (See Note 15(j)). The cost of the mineral rights obtained and additional exploratory work completed since acquisition is \$4,255,694 at December 31, 1978 (\$4,233,039 at December 31, 1977).

On July 14, 1976, those exercising de facto control over the Board of Directors of Javelin decided to immediately abandon the mineral concessions with the potential resultant loss of all rights in Ethiopia. The present Board of Directors subsequently rescinded this decision and a further expert study and evaluation was undertaken, which resulted in a Company decision to continue exploration efforts on the concession in other areas.

The concession is held under a comprehensive mining lease agreement with the Government of Ethiopia. The Company applied for a prospecting permit, which was granted on March 21, 1977, by the Ministry of Mines of the Government of Ethiopia, covering area of 46,700 sq. km. located in the Province of Sidamo, Ethiopia, which includes the original concession areas, plus substantial additional areas.

Since acquisition of the concession, the Company has made geochemical surveys, conducted metallurgical testing, prospecting, and exploration at depth on the concession properties. A report by W. G. Stevenson Associates Limited, consulting geologists, dated March 4, 1977, recommended further exploration by an Earth Land Satellite Program (ERTS) designed to locate ore bodies. The Company adopted this recommendation and has developed a budget for ground follow-up and mapping thereafter. This program also formed the basis upon which the Ministry of Mines of Ethiopia granted the Company the prospecting permit. The prospecting permit does not convey mineral rights to the additional areas but if warranted as a result of the program, application for mining leases will be made to the Government. Upon completion of the ERTS Program the Company is obligated to commence drilling operations which will require significant expenditures. In the event the Company does not proceed with this program the Government may have the right to terminate the concession.

Artena, S.A. has received a report dated March 31, 1978 by Gregory Geo-Science Limited who used on behalf of the Company Landsat, Aeromagnetic and Geological Data to examine and explore the areas held under prospecting permit by Artena, S.A.

Eight highest priority areas with anomalies were identified in addition to three geological zones (similar to others held by Artena, S.A.) believed to contain nickel-ferous laterite deposits. Numerous secondary anomalies were also identified within the study area and they will require additional ground follow up work. When Artena, S.A. has fully evaluated this report, a program of ground follow up work will be implemented which is expected to include drilling.

NOTE 23 Remuneration of Directors and Officers

The total remuneration paid by the Company to its directors and officers was \$346,850 for the year ended December 31, 1978, and \$322,600 for the year ended December 31, 1977.

NOTE 24 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 Tax Act enacted by the Newfoundland Government in June 1978. The Company has notified the Newfoundland Government of its intent to seek appropriate redress.

Exploration rights in approximately 846,720 acres (342,657 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 6,765,160 acres (2,737,418 hectares) originally agreed under the statutory agreement with the Province are terminated. Among the principal exploration prospect areas retained are those in which Nalco is engaged in joint exploration and mineral projects with Falconbridge and with Noranda Mines Ltd., the Burin Peninsula area where Nalco is engaged in a joint exploration program for uranium properties with British Petroleum, and approximately 105 square miles in total, located in two areas relatively close to Lake Melville in Labrador.

The Impost Tax Act provides for a tax on areas held under certain concessions of Nalco at annual rates escalating from \$0.35 per hectare in 1978 to \$3.00 per hectare by 1982. The Impost Tax 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. Nalco thus is not subject to the Impost Tax Act assessments with respect of concession areas to which rights were terminated prior to December 31, 1978.

Nalco's notices informed the Newfoundland Government that Nalco was surrendering these interests under protest on account of the confiscatory taxes imposed by the Impost Tax Act and that the surrenders so compelled resulted from a breach of contract by the province and the act was otherwise illegal in Nalco's opinion. In January 1979, the Minister of Mines of Newfoundland wrote Nalco that Nalco's surrender appeared to be unwilling, that the act imposed no duty on the Province to accept a surrender, that government policy was to accept willing surrenders and if Nalco was willing to willingly surrender, a deed mutually acceptable could be drafted. The outcome of this matter is not determinable at this time; however, in the opinion of management surrender has been effected pursuant to the law.

NOTE 25 Transactions with Related Parties

- (a) In 1976, Mr. Doyle made a demand for reimbursement of expenses upon a subsidiary, Javelin Export Limited ("Export") and Javelin for the payment of his account, plus interest, in an amount of \$1,350,000 in excess of the figure provided for in the accounts. Pursuant to the reorganization of the Company (See Note 26), Pavonia, S.A. assumed Javelin's guarantee of Export's obligation under certain consulting agreements to Mr. Doyle. By agreement between Pavonia S.A., Export and Mr. Doyle, the claim of Mr. Doyle was submitted to binding arbitration to an independent chartered accountant in England and Wales. After the hearing, the arbitrator found that as of September 30, 1977, Export was indebted to Mr. Doyle in a total amount of \$2,630,013 (U.S.), including interest at 7% per

annum to September 30, 1977, found Pavonia, S.A. fully liable thereon as guarantor, and ordered that a note in the amount of his award due on January 2, 1979 with interest after September 30, 1977 at the rate of 6% per annum be issued to Mr. Doyle, but directed that if firm proposals are made by Export to Mr. Doyle by June 23, 1978, and agreed to by Mr. Doyle, such agreement supersede his order as to time of payment. The full amount of the award has been recorded in the accounts of the Company. The award represented an amount as being due Mr. Doyle in excess of the amount prior thereto-recorded in the Company's accounts in the amount of \$1,344,509 (U.S.).

- (b) Consulting contract with Mr. John C. Doyle (See Note 14(a)).
- (c) On April 5, 1978, Javelin, its wholly-owned subsidiaries, Javelin Export Limited and Pavonia, S.A., and Mr. Doyle reached agreement regarding payment of the arbitrator's award. Mr. Doyle agreed to extend the time for payment from January 2, 1979 to April 5, 1983. Javelin agreed that the outstanding balance would bear interest from April 5, 1978 until paid, at the rate of 12½% per annum, payable on April 5 and October 5 of each year. In consideration of the extension of time, Javelin granted to Mr. Doyle an option to purchase up to 4,200,000 common shares of Javelin at a purchase price of \$1.00 (Cdn.) per share. In May 1978, Mr. Doyle assigned to Pole Investments, Inc., a Panama corporation ("Pole"), the right to purchase up to 1,460,000 common shares under the Option. As contemplated by the assignment agreement between Mr. Doyle and Pole, Pole borrowed \$1,314,000 (U.S.) from Javelin's subsidiary Pavonia, S.A. ("Pavonia"), for use in exercising its right to purchase the 1,460,000 Common Shares under the Option.

In June 1978, the Quebec Securities Commission advised Javelin that it would not grant an exemption from the registration requirements of the Quebec Securities Act for the issuance of Common Shares under the Option. In July 1978, the QSC issued an order prohibiting Javelin and its officers from trading in the Common Shares based on Javelin's failure to rescind the Option, as requested by the Commission.

On December 1, 1978, Javelin, Pavonia, Javelin Export Limited and Mr. Doyle entered into an agreement providing for the rescission of the agreement of April 5, 1978 granting the Option and for new terms for payment of Mr. Doyle. On December 4, 1978, the QSC rescinded its July 1978 order prohibiting Javelin and its officers from trading in the Common Shares.

Under the terms of the December 1, 1978 Agreement, Mr. Doyle agreed to extend the time for payment, subject to Javelin's acceptance and effectuation of three subscription offers dated December 1, 1978, for Common Shares. The Agreement provides that the amount owed to Mr. Doyle shall bear compound interest on the unpaid balance at the London

Interbank Official Interest Rate determined as of each January 1 and June 1 (but no less than 9%) plus an additional 3% per annum. The Agreement provided for the conversion of the debt into Canadian dollars (at the currency exchange rate as of November 30, 1978 (\$1.1705) computed to December 31, 1978.) That balance, which was \$3,489,223 (Cdn) was to be paid as follows: (i) \$700,000 (Cdn) on or before July 1, 1979, of which \$505,285 has been paid prior to December 31, 1978; \$700,000 (Cdn) on or before July 1, 1980 and 1981; (ii) \$725,000 (Cdn) on or before July 1, 1982; and (iii) the balance, together with any unpaid interest, on or before July 1, 1983. Javelin, Pavonia and Export also agreed to provide Mr. Doyle with reasonable and commercially acceptable collateral security for payment of the award, in such manner so as to enable Mr. Doyle, at his election, to assure the Canadian Government that the above-referred to three \$700,000 installments and one \$725,000 installment or their equivalent would be paid to the Canadian Government.

In one subscription offer, Mr. Doyle offered to purchase 725,000 Common Shares, for \$906,250, of which \$90,625 will be paid within 25 days after acceptance of the offer by Javelin and the balance payable in five annual installments of \$163,125 commencing December 1, 1979. The subscription offer also provided that an escrow agent be appointed by Mr. Doyle and Javelin to hold the 725,000 Common Shares and to release 125,000 Common Shares upon payment of each installment of the purchase price (the release of all of the Common Shares being further subject to the expiration of the two-year escrow period discussed below).

In another subscription offer, Mr. Doyle offered to purchase 320,000 Common Shares at a price of \$352,000 which would be due within 20 days after the date Javelin accepted Mr. Doyle's offer.

The third subscription offer was made by Pole to purchase 260,000 Common Shares, with the purchase price being at Pole's option, either (i) \$325,000 of which \$32,500 would be due within 25 days after acceptance of the offer by Javelin and the balance payable in five annual installments of \$58,500 to commence on December 1, 1979, or (ii) \$309,000 of which \$30,900 would be due within 25 days after acceptance of the offer by Javelin, and the balance due within six months after December 1, 1978. Notwithstanding the selection of the first method of payment, Pole could elect to pay the lump sum of \$309,000 (inclusive of any previous payments) at any time within six months after December 1, 1978. If the offer was accepted and Pole elected the installment method of payment, the Common Shares were to be deposited with an escrow agent that would release 45,000 Common Shares upon payment of each installment with the remainder released upon final payment (the release of all of the Common Shares being further subject to the expiration of the two-year escrow period discussed below). Pole's subscription offer contained a

provision in which Javelin would agree to assume Pole's obligation to Pavonia for \$1,314,000 (U.S.) which Pole borrowed to pay for 1,460,000 Common Shares under the Option (which, as discussed above, was cancelled) and to procure a release from Pavonia for Pole's liability for this amount. Pursuant to this provision upon execution of the agreement of December 1, 1978, the liability of Pole to Pavonia was cancelled and Canadian Javelin Limited assumed liability to Pavonia for the \$1,314,000 U.S. borrowed from Pavonia and paid to Canadian Javelin by Pole. This liability continues to be owing to Pavonia from Canadian Javelin Limited. Additionally, Pole ratified the rescission of Javelin's obligation to issue the 1,460,000 Common Shares under the Option.

Mr. Doyle and Pole agreed, in their respective subscription offers, not to sell or otherwise distribute to the public any Common Shares obtained under such offers for two years after the shares are issued by Javelin and that escrow agents will hold their Common Shares until the respective two-year periods have lapsed.

In March 1979, Canadian Javelin, Javelin Export, Pavonia, S.A. and Mr. Doyle, entered into an agreement amending the December 1, 1978 Agreement by providing for payment of the balance of \$3,011,919 owing Mr. Doyle (as of December 31, 1978) 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, (see Note 13(a)); and cancelling the subscription offers of Mr. Doyle and Pole described above. Pole, concurrently in a new subscription offer, 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 the Quebec Securities Commission. The offer provides for an option to Pole, exercisable within 350 days after its offer is accepted to purchase up to an additional 325,000 shares at \$1.25 per share.

NOTE 26 Changes in Corporate Structure

Effective September 30, 1977, Javelin implemented a general restructure of its overseas subsidiaries pursuant to which Artena, S.A., Javelin Export Limited, Javelin International Limited and Minas San Cristobal, S.A., all wholly-owned subsidiaries of Javelin became wholly-owned subsidiaries of Pavonia S.A., a wholly-owned subsidiary of Javelin, and subsidiary indebtedness to Javelin including that of Pavonia, S.A., was capitalized by the issuance of shares in exchange for the amount owed. As the exchange was for book value, the restructuring has no effect upon the consolidated financial statements, and effective ownership of the subsidiaries remains the same as prior to the restructuring. Purposes of the program included centralization of operation of overseas subsidiaries and reduction of duplication and amount of legal, accounting, technical engineering and administrative costs.

NOTE 27 Segmented Information

(a) The Company's principal segments by source of income for 1978 are:

Royalties
Sales of Bullion
Interest and Other
Income Under 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
Income Under Javelin-Wabush Iron Contract	806,119	806,119
	<u>\$10,593,755</u>	<u>\$ 5,182,606</u>
Add (Less) Common Credits (Charges)		
Administrative and General		\$ (6,045,809)
Marketing		(349,288)
Interest Expense		(1,053,162)
Unallocated Depreciation		(43,616)
Gain on Foreign Currency Conversion		1,120,931
		<u>\$ (6,370,944)</u>
Loss Before Income Taxes and Extraordinary Items		<u>\$ (1,188,338)</u>
Provision for Income Taxes		(500,000)
Extraordinary Items		(4,861,952)
Net Loss for the Year		<u>\$ (6,550,290)</u>
	°Identifiable Assets	Depreciation and Amortization
Royalties and Income Under Javelin-Wabush Iron Contract	\$17,490,753	\$ 636,549
Sales of Bullion	1,469,328	73,432
Interest and Other	21,346,999	1,887
Subsidiaries in the Stage of Exploration and Development	11,362,830	12,520
	<u>\$51,669,910</u>	<u>\$ 724,388</u>

° Excludes investments and advances and excess of cost over book value of investments in subsidiaries.

(b) **Segments by Geographical Location**

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

	1978		
	Canada	Central America	Total
Gross Revenue	\$ 7,104,187	\$ 3,489,568	\$10,593,755
Less: 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>
Add (Less) Common Credits (Charges)			
Administrative and General			\$ (6,045,809)
Marketing			(349,288)
Interest Expense			(1,053,162)
Unallocated Depreciation			(43,616)
Gain on Foreign Currency Conversion			1,120,931
			<u>\$ (6,370,944)</u>
Loss Before Income Taxes and Extraordinary Items			<u>\$ (1,188,338)</u>
Provision for Income Taxes			(500,000)
Extraordinary Items			(4,861,952)
Net Loss for the Year			<u>\$ (6,550,290)</u>
		°Identifiable Assets	Depreciation and Amortization
Canada		\$21,260,386	\$ 636,549
Central America		30,409,524	87,839
		<u>\$51,669,910</u>	<u>\$ 724,388</u>

° Excludes investment and advances and excess of cost over book value of investments in subsidiaries.

(c) The Company's principal segments by source of income for 1977 are:

Royalties
Sales of Bullion
Interest and Other
Income under Javelin-Wabush Iron Contract

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

	1977	
	Gross Revenue	Gross Margin
Royalties.....	\$ 7,710,910	\$ 3,402,981
Sales of Bullion.....	1,013,719	(120,276)
Interest and Other.....	1,566,176	1,566,176
Income Under Javelin-Wabush Iron Contract.....	1,016,345	1,016,345
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract.....	5,366,746	5,366,746
	<u>\$16,673,896</u>	<u>\$11,231,972</u>
Add (Less) Common Credits (Charges)		
Administrative and General.....		\$ (4,888,618)
Marketing.....		(287,868)
Interest Expense.....		(615,345)
Unallocated Depreciation.....		(34,267)
Gain on Foreign Currency Conversion.....		765,310
		<u>\$ (5,060,788)</u>
Income Before Extraordinary Items		<u>\$ 6,171,184</u>
Extraordinary Items (Note 21).....		184,300
Net Income for the Year		<u>\$ 6,355,484</u>
	*Identifiable Assets	Depreciation and Amortization
Royalties and Income Under Javelin-Wabush Iron Contract.....	\$17,901,649	\$ 644,661
Sales of Bullion.....	1,292,981	94,554
Interest and Other.....	20,462,035	1,643
Subsidiaries in the Stage of Exploration and Development.....	12,536,762	6,912
	<u>\$52,193,427</u>	<u>\$ 747,770</u>

* Excludes investments and advances and excess of cost over book value of investments in subsidiaries.

(d) **Segments by Geographical Location**

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

	1977		
	Canada	Central America	Total
Gross Revenue.....	\$14,104,258	\$ 2,569,638	\$16,673,896
Less: Cost of Royalties.....	(4,307,929)	—	(4,307,929)
Cost of Sales.....	—	(1,133,995)	(1,133,995)
Gross Margin.....	<u>\$ 9,796,329</u>	<u>\$ 1,435,643</u>	<u>\$11,231,972</u>
Add (Less) Common Credits (Charges)			
Administrative and General.....			\$ (4,888,618)
Marketing.....			(287,868)
Interest.....			(615,345)
Unallocated Depreciation.....			(34,267)
Gain on Foreign Currency Conversion.....			765,310
			<u>\$ (5,060,788)</u>
Income Before Extraordinary Items			<u>\$ 6,171,184</u>
Extraordinary Items.....			184,300
Net Income for the Year			<u>\$ 6,355,484</u>
		*Identifiable Assets	Depreciation and Amortization
Canada.....		\$24,130,788	\$ 645,261
Central America.....		28,062,639	102,509
		<u>\$52,193,427</u>	<u>\$ 747,770</u>

* Excludes investment and advances and excess of cost over book value of investments in subsidiaries.

(e) **Capital Expenditures**

In 1978 and 1977 the Capital Expenditures mainly relate to mining operations in Central America and South America.

Auditors' Reports

To the Shareholders and Directors
of Canadian Javelin Limited and Subsidiaries

We have examined the Balance Sheet of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES, as at December 31, 1978 and 1977 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 17% and 18% for 1978 and 14% and 6% for 1977 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 4 to the Consolidated Financial Statements, effective December 31, 1977, the Company has recognized in 1977 the profit adjustment resulting from the sale of shares in 1959 under the Javelin-Wabush Iron Contract. This adjustment does not constitute a change in accounting principles, but does affect the comparability of the financial statements with those of current and prior years.

As disclosed in Notes to the Consolidated Financial Statements, uncertainties exist as to the following matters and their effect, if any, on the financial position and results of operations of the Company:

- (1) As disclosed in Note 13 (b), (c), (d) and (e), a review by Canadian Federal Taxation Authorities has given rise to income tax assessments to which the Company has filed Notices of Objections. The outcome of these matters are unresolved.
- (2) As disclosed in Note 15 (p) and (r), the Company is involved in litigation alleging violations of United States Federal Securities Laws. The outcome of this litigation is uncertain.

In our opinion, based on our examination and the reports of other auditors, and subject to the matters referred to in the preceding paragraph and their effect, if any, these Consolidated Financial Statements present fairly the financial position of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES as at December 31, 1978 and 1977, 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, Québec
March 27, 1979

ROSTON, REINHARZ, BRATT, FREMETH
Chartered Accountants

Report of the Auditors to the members of
Javelin Bulkcarriers Limited

We have examined the accounts set out on Pages 2 to 4 which have been prepared under the historical cost convention.

Reference is made to the annexed Note 3 to the Accounts which relates to certain claims made against the Government of Newfoundland. 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 affairs of the Company as at 31st December, 1978 and of the results for the year then ended. Subject to the foregoing, in our opinion the Balance Sheet and Profit and Loss Account comply with the Companies Act 1948 and 1967.

St. Paul's House, London, EC4P 4BN.
March 26, 1979

MOORE STEPHENS & CO.
Chartered Accountants

To the Shareholders and Board 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, 1978 and the related consolidated statements of operation, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting record 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 19.25% and 51.83% respectively of the consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein insofar as it relates to the amounts included for those subsidiaries, is based upon the reports of other auditors.

In our opinion, based on our examination and reports of other auditors these consolidated financial statements present fairly the financial position of Pavonia, S.A. and subsidiaries as of December 31, 1978 and the consolidated results of their operations and changes in their financial position for the year then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Panama, R.P.
March 2, 1979

GRANDE, NUNEZ Y COMPANIA
Chartered Accountants

Five Year Summary of Operations (Consolidated)

DECEMBER 31, 1978 (In Canadian Dollars)

	1978	1977	1976	1975	1974
Revenue					
Gross Royalties Earned	\$ 6,273,679	\$ 7,710,910	\$ 6,969,602	\$ 3,805,982	\$5,286,672
Sales	1,853,752	1,013,719	1,080,804	1,335,799	1,226,657
Interest and Other	1,660,205	1,566,176	1,569,004	380,327	81,177
Income Under Javelin-Wabush Iron Contract	806,119	1,016,345	917,883	493,089	694,202
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	—	5,366,746	—	—	—
	<u>\$ 10,593,755</u>	<u>\$16,673,896</u>	<u>\$ 10,537,293</u>	<u>\$ 6,015,197</u>	<u>\$7,288,708</u>
Costs and Expenses					
Interest Expense	1,053,162	615,345	523,739	493,795	561,062
Direct Costs of Royalties Earned	3,617,603	4,307,929	3,958,936	2,351,553	2,390,027
Cost of Sales	1,735,855	1,106,544	1,002,840	814,641	719,885
Administrative and General	6,045,809	4,888,618	3,811,918	2,951,358	1,680,979
Marketing	349,288	287,868	228,047	264,198	233,247
Depreciation	101,307	61,718	51,908	47,274	32,916
	<u>\$ 12,903,024</u>	<u>\$11,268,022</u>	<u>\$ 9,577,388</u>	<u>\$ 6,922,819</u>	<u>\$5,618,116</u>
Operating Profit (Loss)	<u>\$ (2,309,269)</u>	<u>\$ 5,405,874</u>	<u>\$ 959,905</u>	<u>\$ (907,622)</u>	<u>\$1,670,592</u>
Other (Expenses) Revenue					
Gain (Loss) on Foreign Currency Conversion	\$ 1,120,931	\$ 765,310	\$ (149,145)	\$ 217,729	\$ 58,387
Equity in Earnings (Losses) of Unconsolidated Subsidiaries	—	—	5,600	(223,148)	(50,382)
	<u>\$ 1,120,931</u>	<u>\$ 765,310</u>	<u>\$ (143,545)</u>	<u>\$ (5,419)</u>	<u>\$ 8,005</u>
Income (Loss) Before Income Taxes and Extraordinary Item	<u>\$ (1,188,338)</u>	<u>\$ 6,171,184</u>	<u>\$ 816,360</u>	<u>\$ (913,041)</u>	<u>\$1,678,597</u>
Provision for Income Taxes	<u>500,000</u>	<u>—</u>	<u>—</u>	<u>200,000</u>	<u>—</u>
Income (Loss) Before Extraordinary Item	<u>\$ (1,688,338)</u>	<u>\$ 6,171,184</u>	<u>\$ 816,360</u>	<u>\$ (1,113,041)</u>	<u>\$1,678,597</u>
Extraordinary Item — Schedule 'A'	<u>(4,861,952)</u>	<u>184,300</u>	<u>(4,149,271)</u>	<u>(1,749,456)</u>	<u>155,808</u>
Net Income (Loss) for the Year	<u>\$ (6,550,290)</u>	<u>\$ 6,355,484</u>	<u>\$ (3,332,911)</u>	<u>\$ (2,862,497)</u>	<u>\$1,834,405</u>
Income (Loss) Per Share					
Income (Loss) Before Extraordinary Item ..	\$ (0.24)	\$ 0.86	\$ 0.11	\$ (0.16)	\$ 0.23
Net Income (Loss) for the Year	<u>(0.91)</u>	<u>0.89</u>	<u>(0.47)</u>	<u>(0.40)</u>	<u>0.26</u>
Number of Shares (Weighted Average)	<u>7,169,648</u>	<u>7,169,648</u>	<u>7,169,648</u>	<u>7,169,648</u>	<u>7,169,407</u>

Notes to Five Year Summary of Operations (Consolidated)

DECEMBER 31, 1978

NOTE (A) Reconciliation to U.S. GAAP	1978	1977	1976	1975	1974
Income (Loss) Before Extraordinary Item in Accordance with Canadian GAAP	\$ (1,688,338)	\$ 6,171,184	\$ 816,360	\$ (1,113,041)	\$1,678,597
(Less) Add: 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	124,480
Amortization of Deferred Liability Under Individual Retirement Agreements in Accordance with U.S. GAAP .	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)	—	—	—	—
Items Treated as Extraordinary Under Canadian GAAP (See Schedule "A")	—	184,300	—	—	155,808
Income Before Extraordinary Items in Accordance with U.S. GAAP	\$ (1,941,611)	\$ 5,076,580	\$ 918,175	\$ (1,231,585)	\$1,958,885
Extraordinary Item	(4,861,952)	—	(4,149,271)	(1,749,456)	—
Net Income (Loss) in Accordance with U.S. GAAP	\$ (6,803,563)	\$ 5,076,580	\$ (3,231,096)	\$ (2,981,041)	\$1,958,885
Earnings Per Share in Accordance with Generally Accepted Accounting Principles in United States					
Income (Loss) Before Extraordinary Item .	(0.27)	0.71	0.13	(0.17)	0.27
Extraordinary Item	(0.68)	0.00	(0.58)	(0.24)	0.00
Net Income (Loss) for the Year	(0.95)	0.71	(0.45)	(0.41)	0.27
Number of Shares (Weighted Average)	7,169,648	7,169,648	7,169,648	7,169,648	7,169,407

NOTE (B)

As mentioned in Note 25 (c) to the Consolidated Financial Statements Pole Investments Inc. has made an offer to purchase 325,000 common shares for \$357,500. The offer provides for an option to Pole for an additional 325,000 shares at \$1.25 per share.

The year end market price per share of Canadian

Javelin Limited's common stock was lower than the price per share offered by Pole Investments Inc.

The market price per share on the date of the purchase offer was approximately the same as the average price per purchase offer.

Using the treasury stock method, the purchase offer would not have any material dilutive effect on earnings per share.

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 1974 to 1978 were as follows:

Year	Amount (Canadian Dollars)
1974	\$ 100,000
1975	118,750
1976	126,250
1977	133,000
1978	142,875

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

1974	\$ 53,298
1975	358,797
1976	116,699
1977	251,347
1978	356,119

NOTE (D)

Amounts of legal fees and expenses charged to income are as follows (Rounded to thousand dollars).

Year	Amount (Canadian Dollars)
1974	\$ 894,000
1975	1,106,000
1976	1,532,000
1977	1,717,000
1978	2,268,000

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):

1974	\$ 235,766
1975	145,160
1976	200,984
1977	249,180
1978	237,801

Schedule of Extraordinary Items — Schedule "A"

DECEMBER 31, 1978 (In Canadian Dollars)

	1978	1977	1976	1975	1974
(1) Losses Resulting from Write-Off of "Nalco Properties" (See Note 21 to Consolidated Financial Statements)	\$ (4,861,952)	\$ —	\$ —	\$ —	\$ —
(2) Elimination of Liability to Bison Petroleum & Minerals Limited (See Note 21 to Consolidated Financial Statements)	—	184,300	—	—	—
(3) Settlement of "Bonime" Litigation	—	—	(1,350,000)	—	—
(4) Allowance in Respect of Julienne Lake Investment	—	—	(2,799,271)	—	—
(5) Losses resulting from Termination, Abandonment or Exploration of Panamanian and Other Projects	—	—	—	(1,749,456)	—
(6) Expenses of Prior Period Charged to Subsidiary	—	—	—	—	155,808
Total Extraordinary Items as Determined in Accordance with Canadian Generally Accepted Accounting Principles	<u>\$ (4,861,952)</u>	<u>\$ 184,300</u>	<u>\$ (4,149,271)</u>	<u>\$ (1,749,456)</u>	<u>\$ 155,808</u>

All of the above items except for Items (2) and (6) would be treated as extraordinary items under U.S. GAAP. Under U.S. GAAP Items (2) and (6) would be charged to operations in arriving at income before extraordinary items.

Management's Discussion and Analysis of the Summary of Operations of Your Company

FISCAL YEARS ENDED DECEMBER 31, 1978 AND 1977

Revenue. Gross revenue from all sources of the Company's operation 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 Company 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 by 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 to receipts from the 1959 sale of capital stock; a \$5,576,972 difference between the amount recognized in 1977 (\$6,383,091) and the amount recognized in 1978 (\$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 labor 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 \$1,157,191 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"), the Company's 99%-owned subsidiary, in the Province of Newfoundland, in view of the enactment by the Province of Newfoundland, of the Impost Tax 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 Tax 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.

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. See Note 21 to Consolidated Financial Statements.

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 current year's income taxes. See Notes 13(b), (c), (d), (e) and Note 20 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. Generally Accepted Accounting Principles ("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, 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. See Note 18(a) to Consolidated Financial Statements.

FISCAL YEARS ENDED DECEMBER 31, 1977 AND 1976

Revenue. Gross Revenue from all sources of the Company's operations for the year ended December 31, 1977 totalled \$16,673,896, an increase of \$6,136,603 from the year ended December 31, 1976.

The main component of this increase was that in 1977 the Company recognized \$5,366,746 as profit from the sale in 1959 of capital stock to Wabush Iron Company Limited. Royalties from the Company's Wabush Property increased by \$741,308 due to increased shipments of iron ore and payment rates. During 1977, 5,550,971 tons of iron ore were shipped compared to 5,399,641 tons in 1976. The payment rate rose to \$1.39339 per ton at December 31, 1977 compared to \$1.33212 per ton at December 31, 1976, an increase of \$0.0613 per ton. Revenue from the Javelin Wabush Iron Contract increased in 1977 by \$98,462 over revenue in 1976 as a result of increased iron ore shipments and payment rates.

Gross sales of gold and silver bullion from the Company's mine in El Salvador declined marginally due to operating interruptions caused by construction of a larger mill and plant, resulting in a decline in bullion production.

Operating Expenses. Operating expenses for 1977 totalled \$11,268,022, an increase of \$1,690,634 over 1976.

Cost of royalties and mining taxes payable to the Province of Newfoundland increased by \$348,993 due to the increased iron ore shipments from the Company's Wabush property.

Administrative and general expenditures increased by \$1,076,700 which reflected for the most part increased professional fees.

Interest expense during 1977 increased by \$91,606 due to additional indebtedness incurred by the Company.

Other costs of doing business have increased due to general inflationary conditions.

Gain (Loss) on Foreign Currency Conversion.

The Company recognized a foreign currency conversion gain of \$765,310 for 1977 compared to a recognized loss of \$149,145 for 1976. The value of \$U.S. in relation to \$CDN increased from \$1 U.S. = \$1.01 CDN at January 1, 1977 to \$1 U.S. = \$1.094 CDN at December 31, 1977 thus resulting in foreign currency conversion gains of \$765,310 for 1977.

Correspondingly, the decline in value of \$U.S. in relation to \$CDN from \$1 U.S. = \$1.02 CDN at January 1, 1976 to \$1 U.S. = \$1.01 CDN at December 31, 1976 created the loss of \$149,145 for 1976.

Extraordinary Item. The total amount of extraordinary item was \$184,300 in 1977 which 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.

The total amount of extraordinary item was

\$4,149,271 in 1976. Of this amount \$1,350,000 was attributable to a settlement of the "Bonime" litigation. The remaining amount of \$2,799,271 was an allowance in respect of the Company's investment in "Julienne Lake."

Income Taxes. The lack of provision for income taxes for both 1977 and 1976 is attributed to the inclusion in income of items that are non-taxable, to the extent that taxable income for the year is nil.

Management Analysis Under United States Generally Accepted Accounting Principles.

Administrative and general expenses for 1977 under U.S. Generally Accepted Accounting Principles ("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 Company's principal shareholder, Mr. John C. Doyle, in 1977 expenses; whereas under Canadian G.A.A.P. this settlement has been recognized in the applicable years as a prior period adjustment. See Note 18(a) to Consolidated Financial Statements.

Information Relating to Industry Segments

YEAR ENDED DECEMBER 31

(IN CANADIAN DOLLARS)

	1978	1977	1976	1975	1974
Revenue from Unaffiliated Sources					
Royalties on Iron Ore	\$ 6,273,679	\$ 7,710,910	\$ 6,969,602	\$ 3,805,982	\$ 5,286,672
Sales of Bullion	1,853,752	1,013,719	1,080,804	1,335,799	1,226,657
Interest	1,660,205	1,566,176	1,569,004	380,327	—
Income Under Javelin-Wabush Iron Contract	806,119	6,383,091*	917,883	493,089	694,202
Other	—	—	—	—	81,177
	<u>\$10,593,755</u>	<u>\$16,673,896</u>	<u>\$10,537,293</u>	<u>\$ 6,015,197</u>	<u>\$ 7,288,708</u>
Segment Margin					
Royalties on Iron Ore	\$ 2,656,076	\$ 3,402,901	\$ 3,010,666	\$ 1,454,429	\$ 2,896,645
Sales of Bullion	60,206	(120,276)	50,513	503,455	493,179
Interest	1,660,205	1,566,176	1,569,004	380,327	—
Income Under Javelin-Wabush Iron Contract	806,119	6,383,091*	917,883	493,009	694,202
Other	—	—	—	—	81,177
	<u>\$ 5,182,606</u>	<u>\$11,231,972</u>	<u>\$ 5,548,066</u>	<u>\$ 2,831,300</u>	<u>\$ 4,165,203</u>
Identifiable Assets					
Royalties & Income Under Javelin-Wabush Iron Contract	\$17,490,753	\$17,901,649	\$11,924,955	\$12,123,736	\$14,032,286
Sales of Bullion	1,469,328	1,292,981	1,259,473	1,114,866	1,981,019
Interest	21,346,999	20,462,035	19,654,971	19,362,638	—
Subsidiaries in the stage of Exploration and Development	11,362,830	12,536,762	13,068,661	15,122,625	34,372,940
	<u>\$51,669,910</u>	<u>\$52,193,427</u>	<u>\$45,908,060</u>	<u>\$47,723,865</u>	<u>\$50,386,245</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).

Foreign and Domestic Operations

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

	1978	1977
Revenue from Unaffiliated Sources		
Canada	\$ 7,104,187	\$14,104,258
Central America	3,489,568	2,569,638
	<u>\$10,593,755</u>	<u>\$16,673,896</u>
Segment Margins		
Canada	\$ 3,486,584	\$ 9,796,329
Central America	1,696,022	1,435,643
	<u>\$ 5,182,606</u>	<u>\$11,231,972</u>
*Identifiable Assets		
Canada	\$21,260,386	24,130,788
Central America	30,409,524	28,062,639
	<u>\$51,669,910</u>	<u>\$52,193,427</u>

* Excludes investment and advances and excess of cost over book value of investments in subsidiaries.

Shareholder Information

	1978	1977	1976	1975	1974
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 names 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	\$ (0.23)	\$ 0.86	\$ 0.11	\$ (0.16)	\$ 0.23
Extraordinary gains (losses) per share	(0.68)	0.03	(0.58)	(0.24)	0.02
Net earnings (losses) per share	(0.91)	0.89	(0.47)	(0.40)	0.25
Shareholders' equity per share	5.54	6.46	5.57	6.04	6.43

The Company has not paid any dividends during the two year period ended December 31, 1978.

Financial Position

(in thousands)

Working Capital (Deficiency)	\$ (4,607)	\$ (1,316)	\$ (3,917)	\$ (3,415)	\$ 3,552
Long-term debt	8,802	7,539	3,806	4,114	8,303
Shareholders' equity	39,749	46,300	39,944	43,277	46,137

Common Shares

Price Range

	VANCOUVER STOCK EXCHANGE*			
	1978		1977	
	High	Low	High	Low
1st quarter	1.40	1.05	—	—
2nd quarter	2.10	1.10	—	—
3rd quarter	1.95	1.25	2.75	1.50
4th quarter	1.75	1.00	1.65	0.85

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

* Vancouver Exchange resumed trading July 14, 1977.

Subsidiaries

Artena, S.A.
Cia. Minera San Marcos S. de R.L.
Bison Petroleum & Minerals Limited (See Note 15(T)(1) to Consolidated Financial Statements)
Gordon Holdings Limited
Oltenia, S.A.
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

Affiliates

Dominion Jubilee Corporation Limited (See Note 15(T)(1) 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

Javelin House, 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 2459, Addis Ababa, Ethiopia

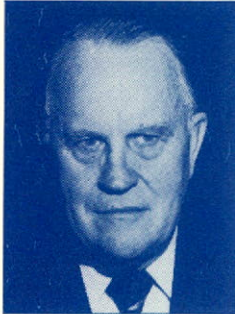
Executive Officers

Raymond Balestreri
President

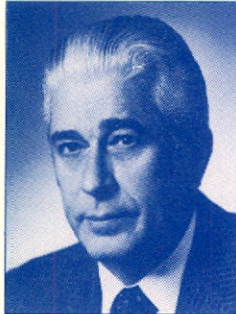
Julius Mallin
Secretary

P. J. DeSantis
Treasurer
Ass't. Sec'y.

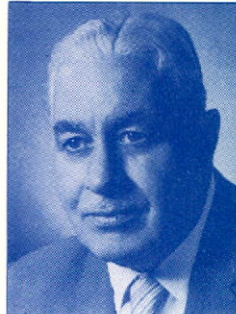
Board of Directors



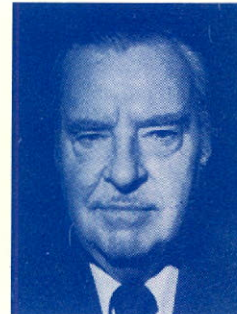
°‡General
Jean V. Allard, (R'td),
C.C., C.B.E., D.S.O.
President,
Anpo Ltée
Trois Rivières, Quebec



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



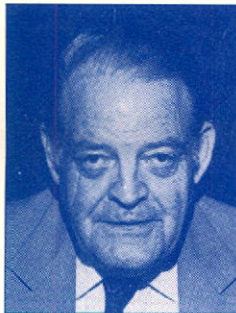
°‡**Honourable Senator**
Lionel H. Choquette,
Q.C.
Barrister & Solicitor
Member of the Senate
of Canada
Ottawa, Ontario



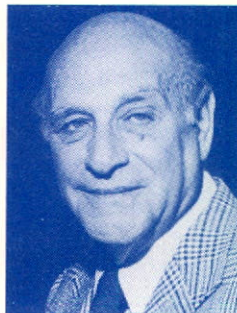
°‡‡**Honourable**
Senator Sarto
Fournier, Q.C.
Chairman of the Board
Canadian Javelin Limited
Barrister & Solicitor
Member of the Senate
of Canada
Hull, Quebec



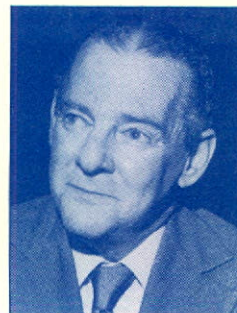
Carlos F. Jelenszky
President,
Joyeria Riviera, S.A.
Panama City,
Republic of Panama



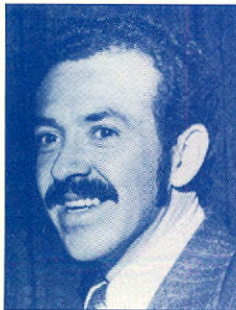
‡‡**Tore Korch**
Managing Director
of Sonitel, S.A.
Panama City,
Republic of Panama



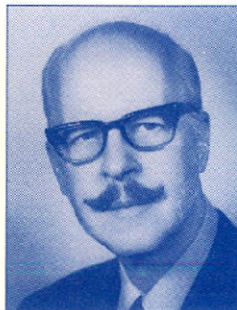
Ernesto Maduro
President,
I.L. Maduro Jr., S.A.
Panama City,
Republic of Panama



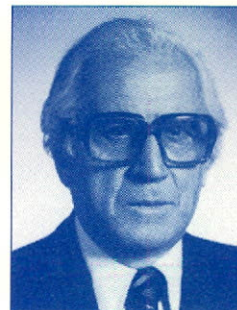
‡**Manuel J. Paredes**
Director,
Companie de LeFevre
Panama City,
Republic of Panama



Dr. Federico Flamenco
Rodriguez
Attorney
Santa Tecla,
El Salvador



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



°**Pierre Warren**
Chairman of the Board
of Directors,
Enheat, Inc.
Quebec City, Quebec

°Compliance Committee
‡Audit Committee

‡Executive Committee
°Chairman, Executive Committee

Upon application in writing the Company will furnish each person receiving this annual report a copy of the Company's annual report on form 10-K filed with the United States Securities and Exchange Commission. Such application should be addressed to the Secretary of the Company. The annual report on form 10-K will be furnished free of charge to shareholders.

CANADIAN JAVELIN LIMITED

1115 Sherbrooke Street West
Montreal, Quebec H3A 1H5

CANADIAN JAVELIN LIMITED

Incorporated under Federal Charter in June 1951

Printed in Canada