



CANADIAN JAVELIN LIMITED / 1977

**annual
report**





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Report of The Directors to Shareholders

Dear Shareholder:

Your Company, over the past year, had a net profit of \$6,355,484, including the recognition of \$5,366,746 of profit on the 1959 sale of certain shares owned by the Company in Labrador projects to Wabush Iron Co. Limited.

Your Company's gross revenue from all sources of operations for the year ended December 31, 1977 totalled \$16,673,896, an increase of \$6,136,603 as compared with the year ended December 31, 1976.

Royalties from your Company's Wabush property increased by \$741,308 due to increased shipments of iron ore and the increase in royalty rates. During 1977, 5,550,971 tons of iron ore were shipped compared to 5,399,641 tons in 1976 and the royalty rates 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 revenues in 1976 as a result of increased iron ore shipments and iron ore prices.

Expenses in 1977 increased substantially over 1976, in part as a result of increased royalty expenses and mining taxes. Administrative and general expenditures also increased by \$913,787 which reflected for the most part increased legal fees. Included in profit is a considerable gain resulting from foreign currency conversion to Canadian funds.

Shipments from the Wabush Iron Mine increased in 1977 in spite of depressed conditions in the iron ore industry. This is attributable to the fact that most iron mines in the United States were shut down due to labor disputes. Shipments to date since January 1st have been almost entirely from stockpiles previously accumulated at Pointe Noire, as production of iron ore concentrates at Wabush has been stopped. This stoppage has been brought about by the interruption, because of a labor dispute, of railway services between the mine in Labrador and the pelletizing plant at Pointe Noire on

the St. Lawrence River. This interruption has continued during the past several months and the time of the resolution of the dispute is uncertain, although negotiations between the parties are in progress.

Your Company's activities in Latin America are showing encouraging results in both the exploration and production of silver and gold. Your Company has expanded its milling capacity at Minas San Cristobal to 200 tons per day. This design capacity has been exceeded in test runs where up to 240 tons per day were processed.

The reactivation of the Divisadero silver-gold mine is proceeding normally. It is planned to process ore from the mine in the Minas San Cristobal Plant. The equipment necessary to permit enlarged mining operations and output at Divisadero has been purchased and shipped, and when installed this property should begin to produce on a regular commercial basis.

The Encuentros property was reopened in 1978 and is now regularly contributing to the mill feed at Minas San Cristobal. Exploration of the Tempisque, Monte Mayor and Banadero properties held under option has produced encouraging results regarding metal content of the silver-gold mineralization found to date.

Your Company is currently negotiating for the acquisition and installation of equipment at the Moramulca Mine in Honduras to provide 150-200 tons per day of milling and processing capacity for its silver-gold ores.

Your Company has been engaged in the exploration, development and production of silver-gold mineral deposits in these areas for more than 18 years.

Your Company has been exploring mineral properties that have been recently acquired or are held under option or are under active negotiations for lead-zinc-silver, copper, gold, and lead-zinc in Bolivia, Uruguay, Peru and Chile. It is too early in these exploration activities to be able to determine their commercial possibilities.

In March 1978, your Company received a geological report regarding the earth/land satellite examination of the area in southern Ethiopia covered by its mineral concession permit. Eight highest priority areas containing anomalies were identified as well as three additional favorable geological zones. These anomalous areas and geological zones are similar to others held by Artena that have been proven to contain nickeliferous laterite deposits. Several secondary anomalies were also identified within the study area which will require ground follow up work. When your Company has fully evaluated this report, ground follow up work, including drilling, may be implemented when conditions permit such activity.

During the past year exploration has been actively conducted on your Company's mineral concessions in Newfoundland. Under agreements with your Company, BP Minerals Limited is exploring for uranium, and Falconbridge Nickel Mines Limited is investigating the commercial possibilities of certain base metal deposits. Noranda Exploration Company Limited is continuing metallurgical evaluations of the Point Leamington copper-zinc-gold-silver deposit.

The Company has recently initiated in the United States District Court, Washington, D.C., legal action against the former compliance counsel appointed under the provisions of the 1974 Consent Decree, in the United States District Court for the Southern District of New York. In this action the Company has claimed substantial real and punitive damages.

Your Company is further engaged in extensive litigation involving a large number of lawsuits both as plaintiff and defendant. While such activities are costly and burdensome on your Company, the lawsuits which your Company is prosecuting as plaintiff seek recovery of substantial amounts of money, the establishment of important rights, the protection of your Company's assets and the obtaining of relief against actions by the Canadian Department of Consumer and Corporate Affairs which your Company believes are oppressive. Management believes that it must vigorously defend against the significant expropriations of assets

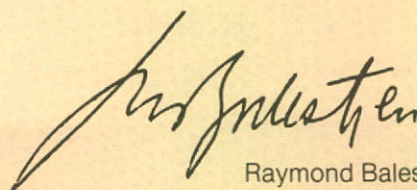
carried out against your Company which involve large amounts of money and important principles. You are referred to the footnotes to the financial statements for a more detailed description of the litigation in which your Company is involved.

Although your Company was not a party and therefore its participation was limited to the presentation of an amicus curiae brief in the litigation, shareholders may be interested to know that the Supreme Court of the United States recently ruled that the repeated long-term 10-day suspensions by the United States Securities and Exchange Commission of your Company's shares from trading were illegal. The decision made clear that the United States Securities and Exchange Commission misused its powers in respect of your Company's shares.

Your Company in 1977 completed the re-organization program of its overseas subsidiaries. While the implementation of this re-organization increased expenses in 1977, management believes that the reorganization will improve the administration of your Company's overseas affairs.

Respectfully submitted,

On Behalf of the Board of Directors,



Raymond Balestreri,
President

June 2, 1978.

Consolidated Balance Sheet

As at December 31, 1977 and 1976

Assets

Current

	1977	1976
	(In Canadian Dollars)	
Cash	\$ 858,224	\$ 230,139
Bank Deposit Receipts and Securities	4,300	54,300
Accounts Receivable, Royalties and Other	4,051,802	3,191,877
Inventories (Note 3)	335,473	359,193
Deposits and Prepaid Expenses	26,391	31,208
Current Portion of Bonds, Republic of Panama	503,240	434,300
	<u>\$ 5,779,430</u>	<u>\$ 4,301,017</u>

Long-Term

Receivable Under Javelin-Wabush Iron Contract (Note 4)	\$20,968,426	\$21,984,771
Less: Contra	—	(21,984,771)
Unamortized Valuation Discount	<u>(15,601,680)</u>	<u>—</u>
	\$ 5,366,746	\$ —
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)	18,955,924	17,965,077
	<u>\$28,152,004</u>	<u>\$21,794,411</u>

Investment and Advances

Associated Companies (Note 8)	\$ 3,128,720	\$ 3,065,204
Non-Consolidated Subsidiaries (Note 9)	3,239,832	3,021,601
Other	70,349	50,518
	<u>\$ 6,438,901</u>	<u>\$ 6,137,323</u>

Fixed

Property, Plant and Equipment — at Cost (Note 10)	\$ 1,364,051	\$ 1,207,166
Less: Accumulated Depreciation	<u>(723,601)</u>	<u>(670,110)</u>
	\$ 640,450	\$ 537,056
Mineral Rights, Leases, Permits and Concessions, Including Development Costs	\$ 8,547,198	\$ 7,449,059
	<u>\$ 9,187,648</u>	<u>\$ 7,986,115</u>

Other

Deferred and Other Charges	\$ 86,484	\$ 113,575
Unamortized Expenses	8,987,861	9,332,638
Excess of Cost Over Book Value of Investment in Subsidiaries	2,380,304	2,380,304
	<u>\$11,454,649</u>	<u>\$11,826,517</u>

	<u>\$61,012,632</u>	<u>\$52,045,383</u>
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The Accompanying Notes Form an Integral Part of the Financial Statements.

Liabilities

1977 1976

(In Canadian Dollars)

Current

Bank Advance	\$ 34,034	\$ 124,361
Accounts Payable	5,013,149	3,825,993
Liability Arising from Litigation Settlement (Note 15(a))	796,752	1,175,000
Bank Loans Secured (Notes 7 and 11)	109,400	1,816,575
Current Portion of Long-Term Debt	942,570	1,076,543
Income Taxes Payable (Notes 13(b) and 20)	200,000	200,000
	<u>\$ 7,095,905</u>	<u>\$ 8,218,472</u>

Long-Term

Loans Payable — Secured (Note 12)	\$ 5,447,715	\$ 2,059,278
Mortgage and Other — Secured (Note 12)	114,326	121,385
	<u>\$ 5,562,041</u>	<u>\$ 2,180,663</u>
Less: Current Portion	942,570	1,076,543
	<u>\$ 4,619,471</u>	<u>\$ 1,104,120</u>
Due to Shareholder (Notes 13(a), 25 and 29)	2,919,554	2,701,531
	<u>\$ 7,539,025</u>	<u>\$ 3,805,651</u>

Deferred — Advance Royalty

Minority Interest

\$ 17,000	\$ 15,750
\$ 60,942	\$ 61,234

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

Shareholders' Equity

Capital Stock (Notes 17 and 29)

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)

3,118,113 (3,237,371)

\$46,299,760 \$39,944,276

\$61,012,632 \$52,045,383

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, 1977 and 1976

	(In Canadian Dollars)	
Retained Earnings — December 31, 1975 (As Previously Reported)	\$	1,227,376
Prior Period Adjustment (Note 18)		(1,131,836)
As Restated	\$	95,540
Net (Loss) for 1976 —As Restated (Note 18)		(3,332,911)
(Deficit) — December 31, 1976	\$	(3,237,371)
Net Income for 1977		6,355,484
Retained Earnings — December 31, 1977		3,118,113

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

Consolidated Statement of Operations

For the Years Ended December 31, 1977 and 1976

	1977	1976
	(In Canadian Dollars)	
Revenue		
Gross Royalties Earned on Iron Ore	\$ 7,710,910	\$ 6,969,602
Sales of Bullion	1,013,719	1,080,804
Interest and Other	1,566,176	1,569,004
Income Under Javelin-Wabush Iron Contract	1,016,345	917,883
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract (Note 4)	5,366,746	—
	\$16,673,896	\$10,537,293
Cost and Expenses		
Direct Cost of Royalties Earned (Note 19) —		
Amortization	\$ 628,909	\$ 628,909
Provincial Royalties and Taxes	2,201,892	1,880,055
Royalties — Knoll Lake Minerals Limited	1,477,128	1,449,972
	\$ 4,307,929	\$ 3,958,936
Cost of Sales	1,106,544	1,002,840
Administrative and General	4,725,705	3,811,918
Marketing	287,868	228,047
Interest — Long Term Debt	652,618	337,293
Interest — Other	72,951	186,446
Depreciation	61,718	51,908
	\$11,215,333	\$ 9,577,388
Operating Profit	\$ 5,458,563	\$ 959,905
Other (Expenses) Income		
Gain (Loss) on Foreign Currency Conversion	\$ 712,621	\$ (149,145)
Equity in Earnings of Unconsolidated Subsidiaries	—	5,600
	\$ 712,621	\$ (143,545)
Income Before Income Taxes and Extraordinary Items	\$ 6,171,184	\$ 816,360
Provision for Income Taxes (Notes 13(b) and 20)	—	—
	\$ 6,171,184	\$ 816,360
Extraordinary Items (Note 21)	\$ 184,300	\$ (4,149,271)
Net Income (Loss) for the Year	\$ 6,355,484	\$ (3,332,911)
Earnings Per Share		
Income (Loss) per Share (Note 18)		
Income Before Extraordinary Items —		
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	\$ 0.75	\$ —
Income Exclusive of Above	0.11	0.11
	\$ 0.86	\$ 0.11
Extraordinary Items	0.03	(0.58)
Net Income (Loss) for the Year	\$ 0.89	\$ (0.47)

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

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1977 and 1976

	1977	1976
	(In Canadian Dollars)	
Sources of Working Capital		
Funds from Operations		
Income Before Extraordinary Items	\$ 6,171,184	\$ 816,360
Add: Charges (Deduct Credits) to Income Not Affecting Working Capital:		
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	(5,366,746)	—
Depreciation	61,718	51,908
Amortization	686,052	685,384
Mining Rights and Development Costs Written Off	184,374	—
Interest Due to Shareholder	251,347	116,699
Foreign Exchange (Gain) Loss	(1,068,453)	204,800
Equity in Earnings of an Unconsolidated Subsidiary	—	(5,600)
Other	16,013	—
Total Provided from Operations, Excluding Extraordinary Items	\$ 935,489	\$ 1,869,551
Extraordinary Items (Note 21)	\$ 184,300	\$ (4,149,271)
Less: Not Affecting Working Capital	(184,300)	2,799,271
	\$ —	\$ (1,350,000)
Total Provided from Operations	\$ 935,489	\$ 519,551
Redemption of Bonds	\$ 489,440	\$ 434,300
Increase in Long-Term Debt	4,274,075	74,610
Increase in Advance Royalty	1,250	1,000
Increase in Amount Due to a Shareholder	—	554,823
Transfer of Amounts from Development Costs to Advances to Subsidiaries	—	920,015
	\$ 5,700,254	\$ 2,504,299
Uses of Working Capital		
Increase in Advances to Associated Companies	\$ 63,516	\$ 42,303
Increase in Advances to Subsidiary Companies	38,820	50,900
Increase in Other Advances	19,831	—
Acquisition of Fixed Assets	169,363	202,117
Increase in Mineral Rights	1,106,691	1,422,394
Increase in Unamortized Expenses	482,539	204,343
Increase in Deferred Charges	2,854	8,176
Repayment of Amount Due to Shareholder	273,089	—
Reduction in Long-Term Debt	942,571	1,076,910
	\$ 3,099,274	\$ 3,007,143
Decrease (Increase) in Working Capital Deficiency	\$ 2,600,980	\$ (502,844)
Working Capital (Deficiency) — Beginning of Year	\$ (3,917,455)	\$ (3,414,611)
Working Capital (Deficiency) — End of Year	\$ (1,316,475)	\$ (3,917,455)
Increase (Decrease) in Components of Working Capital		
Current Assets		
Cash	\$ 628,085	\$ 18,398
Bank Deposit Receipts and Securities	(50,000)	46,239
Accounts Receivable, Royalties and Other	859,925	1,302,955
Inventories	(23,720)	29,720
Deposits and Prepaid Expenses	(4,817)	(11,753)
Current Portion of Bonds, Republic of Panama	68,940	39,300
Increase in Current Assets	\$ 1,478,413	\$ 1,424,859
Current Liabilities		
Bank Advance	\$ 90,327	\$ 196,740
Accounts Payable	(1,187,156)	(824,455)
Liability Arising from Litigation Settlement	378,248	(1,175,000)
Bank and Other Loans Secured	1,707,175	(171,575)
Current Portion of Long-Term Debt	133,973	46,587
(Increase) Decrease in Current Liabilities	\$ 1,122,567	\$ (1,927,703)
Decrease (Increase) in Working Capital Deficiency	\$ 2,600,980	\$ (502,844)

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

Notes to Consolidated Financial Statements

DECEMBER 31, 1977

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, 1976, \$1.02, December 31, 1976, \$1.01 and December 31, 1977, \$1.094.

(c) Inventories

Inventories consist of bullion and mining supplies. The bullion is stated at net realizable value and mining supplies are stated at average 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 and Equipment	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 Development 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 are being amortized on the straight line basis over twenty-five years.

The unamortized expenses of Minas San Cristobal, a subsidiary, are being amortized over an eight year period.

(iii) Excess of Cost Over Book Value

The excess of cost over book value of investments in subsidiaries arose from acquisitions prior to October 31, 1970. Such costs will be amortized only to the extent that a decline in value becomes evident or a definite term of existence is indicated.

It is the opinion of management that there has been no such decrease in value.

(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 28).

NOTE 2 Restatement of 1976 Financial Statements

The prior period's financial statements have been restated to give effect to:

- (a) The determination by arbitration of the J. C. Doyle claim in the amount of \$1,293,516 relating to expenses of prior periods (See Notes 18 and 25).

- (b) The exclusion of Bison Petroleum & Minerals Limited and Oltenia S.A. from consolidation (See Note 15(t)(1) and 15(v)).
- (c) Exploration costs recoverable from Bison Petroleum & Minerals Limited (See Note 18(b)).
- (d) Certain amounts in the December 31, 1976 financial statements have been reclassified to conform with the presentation of similar amounts in the December 31, 1977 financial statements.

NOTE 3 Inventories

Inventories at December 31 used in the computation of cost of sales comprised of:

	1977	1976	1975
Bullion	\$187,937	\$235,644	\$196,094
Mining Supplies	147,536	123,549	133,379
	<u>\$335,473</u>	<u>\$359,193</u>	<u>\$329,473</u>

NOTE 4 Javelin-Wabush Iron Contract

The balance results from the sale to Wabush Iron Co. Limited of 10% of the capital stock of Wabush Lake Railway Company Limited and 10% of the capital stock of Wabush Iron Co. Limited on January 30, 1959 and is payable as iron ore is shipped from the Wabush leased premises at the rate of \$0.18316 per ton at December 31, 1977 (\$0.17530 at December 31, 1976), 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 has recognized the profit on the sale of capital stock calculated on the remaining minimum payments receivable discounted at 5% over 76.25 years. Previously the profit was being recognized as collected. The net profit adjustment of \$5,366,746 (\$.75 per share) was included in income for 1977 and is summarized below:

Profit Deferred (Previously referred to as contra)	\$ 20,968,426
Unamortized Valuation Discount	<u>15,601,680</u>
Income Adjustment Resulting from Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract ..	<u>\$ 5,366,746</u>

The unamortized valuation discount amount will be taken into income as received in future periods.

Management has now determined the collectibility of the sales price to be reasonably assured and since the Company is no longer obligated to perform activities in connection with the sale, the recognition of the adjusted profit is appropriate.

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 has been filed and a Company arbitrator has been 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 has not received 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 has named Clyde K. Wells, Q.C. as its arbitrator. The third arbitrator has not yet been named. The Company expects to continue discussions with a view to settling some or all of the dispute. If a settlement is not forthcoming within a reasonable delay, it is expected that formal arbitration proceedings will proceed.

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 it will recover that 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 98.8% 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 the provision for payment of compensation to 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.

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 \$4,376,000 at December 31, 1977 (\$1,816,575 at December 31, 1976). (See Notes 11 and 12.)

NOTE 8 Investment and Advances in Associated Companies

	1977	1976
(a) Dominion Jubilee Corporation Limited (Including advances of \$397,886 and \$390,683 at December 31, 1977 and 1976 respectively) ..	\$2,380,082	\$2,372,832

(b) Norlex Mines Limited
(Including advances of
\$549,862 and \$493,596
at December 31, 1977
and 1976 respectively) ..

	748,638	692,372
	<u>\$3,128,720</u>	<u>\$3,065,204</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 Limited issued and outstanding at December 31, 1977 and 1976, 1,097,419 shares (18%) were held by the Company. Of the foregoing shares 435,000 shares are held in escrow. The activities of Norlex Mines Limited during 1977 and 1976 have had no material effect on the Company's financial statements.

NOTE 9 Investment and Advances in Non-Consolidated Subsidiaries

	Investment and Advances		Accumulated Loss		Net Investment and Advances	
	1977	1976	1977	1976	1977	1976
(a) Bison Petroleum & Minerals Limited	\$4,013,778	\$3,381,584	\$ 902,383	\$ 496,353	\$3,111,395	\$2,885,231
(b) Bison Brewing Company Limited	\$ 76,042	\$ 67,841	\$ —	\$ —	\$ 76,042	\$ 67,841
(c) Oltenia S.A.	\$ 52,395	\$ 68,529	\$ —	\$ —	\$ 52,395	\$ 68,529
	<u>\$4,142,215</u>	<u>\$3,517,954</u>	<u>\$ 902,383</u>	<u>\$ 496,353</u>	<u>\$3,239,832</u>	<u>\$3,021,601</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.

(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:

	1977	1976
Land	\$ 18,000	\$ 18,000
Buildings	162,287	154,996
Machinery and Equipment	342,863	329,585
Automobiles and Trucks ..	90,018	77,297
Office, Engineering and Production Equipment .	548,921	536,864
Furniture and Fixtures	17,652	18,025
Leasehold Improvements .	48,721	48,721
Construction in Progress .	135,589	23,678
Property, Plant and Equipment — at Cost ...	\$1,364,051	\$1,207,166
Less: Accumulated Depreciation and Amortization	(723,601)	(670,110)
	<u>\$ 640,450</u>	<u>\$ 537,056</u>

Depreciation and Amortization of property, plant and equipment charged to operations aggregated \$61,718 in 1977 and \$58,906 in 1976.

NOTE 11 Short-Term Borrowings

	1977	1976
Bank Loans — Secured (See Note 7)	\$ —	\$1,816,575
Bank Loan	109,400	—
	<u>\$ 109,400</u>	<u>\$1,816,575</u>

The average of the month-end borrowings during the year 1977 was \$662,029 and for the year 1976, \$2,282,360. The highest of the month-end borrowings during the year 1977 was \$1,626,656 and for the year 1976, \$4,125,000.

The weighted average interest rate on aggregate short-term borrowings, as determined by dividing interest expense applicable to short-term borrowings by the average month-end borrowings, was 10% for 1977 and 12% for 1976.

NOTE 12 Long-Term Debt

	1977	1976
Central States Pension Fund (a)		
8½% — Last Payment due June 22, 1978	\$ 141,815	\$ 392,778
7% — Last Payment due August 1, 1978	246,150	530,250
6½% — Last Payment due January 25, 1979	683,750	1,136,250
Royal Trust Company (b)		
12% — Last Payment due July 15, 1981	\$ 110,236	\$ 117,295
Banque Nationale de Paris (c)		
3% — Over the London Inter Bank Rate	\$4,376,000	\$ —
Other		
Non-Interest Bearing with No Maturity Date	\$ 4,090	\$ 4,090
	<u>\$5,562,041</u>	<u>\$2,180,663</u>
Less: Debts Maturing Within One Year, Included in Current Liabilities	\$ 942,570	\$1,076,543
	<u>\$4,619,471</u>	<u>\$1,104,120</u>

- (a) Secured by an assignment of royalties from Wabush Mines with quarterly payments of \$264,815 (U.S.), plus accrued interest.
- (b) Mortgage payable secured by real property (carried at cost of \$133,943) repayable in the monthly instalments of \$1,702, including principal and interest.
- (c) Bank loan secured by the bonds, Republic of Panama (carried at \$19,459,164) (See Note 7). Repayment to be made in quarterly instalments of \$416,666 (U.S.) commencing June 3, 1979.

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

1978	\$ 942,570
1979	1,512,818
1980	1,832,984
1981	1,269,579
1982	NIL

NOTE 13 Contingent Liabilities

- (a) Javelin may be contingently liable in the approximate amount of \$1,444,177 and may become contingently liable for any additional amounts paid to Mr. John C. Doyle after December 31, 1975, as a result of a third party demand made on the Company by the Receiver General for Canada relative to an alleged liability of Mr. Doyle to the Department of National Revenue. On

November 10, 1977 an action was commenced against Javelin on behalf of Canada (Department of National Revenue) claiming that \$1,444,177 had been paid by Javelin directly, or indirectly through Javelin Export Limited to Mr. Doyle during the period through December 31, 1975, in violation of the Letter of Demand. The action is in the early stages and Javelin has not filed its defense.

- (b) The Canadian Department of National Revenue has issued notice 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 Javelin 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. The amount of the tax assessed and demanded was \$1,212,723, plus interest of \$198,586 to November 21, 1977, which amount as yet has not been paid. In the event Javelin's objection is upheld (that sale of the shares of Wabush Iron Co. Limited and Wabush Lake Railway Company Limited, is a non-taxable transaction) Javelin would have sufficient pre-production exploration expenses not used as deductions in the prior years (1970-1973) to off-set the income for the year 1974 resulting from inclusion of other items of income.

Should the Government position be upheld, Javelin has determined that \$3,141,725 of pre-production exploration expenses recorded by a wholly-owned subsidiary could be utilized to reduce Javelin's assessed taxable income for 1974.

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.

Javelin recorded a liability for income taxes in the amount of \$200,000 in the year ended December 31, 1975, in respect to any liability payable in respect to its 1974 taxation year which it considered will be sufficient.

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, 1977	December 31, 1976
Office Leases for 1977	\$ —	\$54,080
Office Leases for 1978	64,080	12,080
Office Leases for 1979	21,360	—

Rent expense for the year 1977 for leased office space was \$67,660 (\$86,353 for 1976). The Company has no significant financing leases.

- (c) Javelin has entered into individual retirement agreements with three 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 \$40,350 in any one year.

Payment under these agreements amounted to \$39,960 for 1977 and \$39,000 for 1976. Per actuarial valuation, the present value of the retirement benefits amounts to \$265,748 (See Note 28 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, except that if the order and judgment became final through expiration of time to appeal therefrom, or from any order on an appeal, the entire amount of the settlement was required to be paid into the fund within ten days, and if Javelin came into sufficient financing to pay the entire amount of the settlement into the fund before November 1977, it was required to do so. 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, as above described, 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 provided for the full settlement of \$1,350,000 (U.S.) and has recorded this as an extraordinary charge against income in the year ended December 31, 1976 (See Note 21).

In 1976, \$175,000 (U.S.) was deposited by Javelin into the settlement fund in trust. In 1977, Javelin made three deposits into the settlement fund aggregating \$471,707 (U.S.).

The schedule of payments into the settlement fund has been modified to provide for the payment of \$300,000 (U.S.) forthwith upon the execution of a stipulation dated February 1, 1978, which has been approved by order of the court, \$100,000 (U.S.) on or before May 5, 1978, and \$303,292 (U.S.) on or before August 5, 1978. Javelin has made an assignment of these sums out of royalty payments receivable from Wabush Mines and has further assigned in trust the sum of \$25,000 (U.S.) out of royalties to become due on or before August 5, 1978, to be available for payment of expenses of administration and distribution of the settlement. The payments due on February 1, 1978, and May 5, 1978 have been made as required.

- (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 Bonime (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. In addition, the court will set a reasonable attorney's fee to be paid by defendants. The amount of the payments to the attorneys cannot be determined at this time and no provision has been made in these statements for such amounts. 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.

- (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 the 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 as yet 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 two years, no 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 four 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 (See Note 5).

(g) **Canadian Javelin Limited et al v. Golden Eagle:**

On January 18, 1974, Javelin and its wholly-owned subsidiary, Javelin Forest Products Limited, commenced an action in the Superior Court, District of Montreal, Province of Quebec, against Golden Eagle Canada Ltd., seeking damages for defamation. The plaintiffs desisted from this action on November 1, 1977.

(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.

The Brooks defendants have not replied to the claims against them and have not answered the complaint. Mr. Brooks has submitted an affidavit denying that any of the Wismer defendants participated in the solicitation or that the solicitation was in their interest. The Wismer defendants argue lack of jurisdiction and insufficiency in law.

Javelin's motion for a preliminary injunction is under consideration by the court. Counsel believes that Javelin should prevail.

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

In April 1977, Javelin requested a 30 day extension to file its report on Form 10-K 1976. The SEC denied the request. Javelin petitioned for review by the United States Court of Appeals for the District of Columbia Circuit. Review is still pending. In connection therewith, Javelin moved to compel the SEC to file a complete record and to supply materials which it has expurgated from the record presented to the United States Court of Appeals. The motion was granted in part.

(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 the Company 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 judgments 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) **Minister of Consumer and Corporate Affairs v. Canadian Javelin Limited:**

Prior and subsequent to the July 30, 1976, meeting of shareholders ordered by the Superior Court of Montreal, various actions and proceedings were instituted relating to the compliance of such meeting with the rules and regulations of various regulatory agencies, including an unsuccessful attempt by special SEC compliance counsel appointed under an SEC 1974 Consent Decree to intervene on behalf of U.S. Shareholders in Canadian Courts.

In relation to the July 30, 1976 meeting of shareholders, the Minister of Consumer and Corporate Affairs (Canada) took action on or about July 28, 1976 by way of a Motion for an Order of Compliance under the Canada Corporations Act against Javelin, John C. Doyle, Boon Strachan Coal Company Limited and Michel Robert. The Minister's motion was denied by Judgement of the Superior Court, dated July 29, 1976. On or about August 4, 1976, the Minister inscribed an Appeal from the said judgement. In 1977, the Minister of Corporate and Consumer Affairs desisted from this appeal.

(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 \$175,813 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. The defendant has not yet filed its defense, but has obtained the right to issue a Third Party Notice calling upon Bison Petroleum & Minerals Limited for indemnification.

(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 alleged failure to file financial statements with the Quebec Securities Commission for the year ended December 31, 1975, and for the period ending June 30, 1976. A Plea of Not Guilty has been entered on behalf of Javelin. Trial has been fixed for the summer of 1978.

(n) **The 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 Statement of Claim alleges that there is 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 is 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 alleges 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 is claimed in virtue of The Mining and Mineral Rights Tax Act, 1975. The Province alleges 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 judgement was entered for the Province. Javelin was ordered to pay the sum of \$338,880 with respect to additional royalties and \$193,273 with respect to withholding taxes, plus costs. Javelin has appealed the judgement. It is expected that the appeal will be heard during 1978.

If the allegation by the Province that it is entitled to recover from Javelin additional royalty with respect to shipments of iron ore concentrates during 1975 is upheld on appeal, the Province may seek to recover additional royalty totalling \$831,394, with respect to shipments of iron ore concentrates during 1976 and \$1,014,773 with respect to shipments during 1977. Provision has been made in the financial statements with respect to the amounts of \$338,880, \$831,394 and \$1,014,773, (forming the total amount of \$2,185,047) which may be due as additional royalty for 1975, 1976 and 1977.

If the appeal courts uphold the allegation by the Province that it is entitled to recover from Javelin amounts which Javelin should have withheld from royalty payments made to Knoll Lake Minerals Limited and remitted to the Province, the Province may seek to recover an additional sum totalling \$345,577 with respect to further royalty payments made to Knoll Lake Minerals Limited during 1976 and \$355,262 with respect to payments made during 1977. No provision has been made in the financial statements with respect to the amount of \$193,273, \$345,577 and \$355,262 (forming the total amount of \$894,112) which may be due for 1975, 1976 and 1977 in this regard, as Javelin, if obliged to make this payment to the Province, could avail itself of an equivalent deduction from the taxes which it is otherwise required to pay pursuant to the Mining & Minerals Rights Tax Act to the Province, offsetting the contingent liability of \$894,112.

In separate actions (See Note 6), Javelin is seeking a declaration that the Mining & Minerals 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.

(o) **Ayre, Shirriff, Wylie v. Canadian Javelin Limited:**

In July and August 1977, Anthony G. Ayre, Frank C. Shirriff & 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 directors claiming from each of them \$1,900,000 representing damages suffered by Javelin as a result of their improper conduct as directors including breaches of fiduciary duty.

(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, Javelin Treasurer, and General Allard, and 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, Sections 10, 13, and the rules and regulations thereunder, alleging that Javelin had not timely filed reports required under the Act, and that reports filed from 1973 to the time of the filing of the amended complaint were false, misleading, and omitted to state facts necessary to make the statements made not misleading, in that the reports, among other things, failed to disclose the inability of the Company or its outside auditors to account for or determine whether the Company 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 the road contractor and other expenditures in connection with the road to the Cerro Colorado project, the repudiation of a former officer of his 1974 verification of the road costs relied on by the outside auditors in their certification of the Company'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 the Company for \$25,000, that the Company 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 the Company 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 Julienne 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 in order to render a correct accounting of the Company's position. No monetary damages from the Company are sought.

The defendants moved to dismiss the amended complaint on the grounds that it does not state a cause of action under the Act and that the court lacks jurisdiction over the subject matter. The court denied the motion, whereupon the defendants brought a 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 that the court was concerned with the issue of the scope of discovery.

Motions are currently under consideration by the court involving matters of discovery and other procedural questions. Javelin intends to contest the case on the merits if it is not disposed of by motion.

(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.

(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 the Company, 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 F. H. 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, the providing

of copies, or the giving of access to the Company's documents obtained by him in the inquiry to any other person, (except his authorized agents). The defendants in the action gave an undertaking not to provide, or give access to, copies of the Company's documents to others until the interlocutory injunction was heard.

The interlocutory injunction has been heard by Mr. Justice Gibson. On June 2, 1978, Mr. Justice Gibson dismissed Javelin's request for an interlocutory injunction on the grounds that the communication of information regarding Javelin by Mr. Sparling and his agents was authorized by law and that Javelin has not made out a prima facie case on the law nor established a showing of irreparable injury. Javelin has filed an appeal with respect to Mr. Justice Gibson's denial of Javelin's request for an interlocutory injunction.

(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 the capital stock of Dominion Jubilee.

The aforesaid transactions, if upheld by the Courts, would result in the removal of control from the Company of Bison and Dominion Jubilee and the placing of the control of Bison and Dominion Jubilee in the hands of Dominion Jubilee and Bison, respectively. The boards of Bison and Dominion Jubilee are controlled by the

same persons, none of whom are significant shareholders in either Bison, Dominion Jubilee or Javelin.

Subsequent legal proceedings have been commenced by Javelin in the Supreme Court of Ontario seeking to cancel the transactions hereinabove referred to and for damages. Subsequent to the 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. Bison has not yet filed its statement of claim.
- (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.

(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 fund. 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.).

(w) **Bison Petroleum & Minerals Limited v Canadian Javelin Limited:**

In May 1978, Bison instituted an action in the Supreme Court of Newfoundland against Javelin, seeking recovery of \$671,082 and interest thereon and costs, for \$671,082 allegedly advanced by Bison to Javelin between January 1, 1974 and December 31, 1977. Javelin intends to vigorously contest this action. This amount of liability has been recorded in the Financial Statements of the Company.

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 in the internationally recognized accounting firm of McKlintoch, 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 development costs", for balance sheet presentation.

NOTE 17 Capital Stock

Stock Options

Under Javelin's 1970 Stock Option Plan 180,353 shares of the authorized capital stock are reserved for

Information as to share options granted and exercised under the 1970 Stock Option Plan at December 31, 1977 and 1976 are shown on the accompanying schedule.

OPTIONS OUTSTANDING AT DECEMBER 31, 1977

Date Granted	Number of Shares	Option Price		Market Value at Date of Grant	
		Per Share	Total	Per Share	Total
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	3,813	1.91	6,080	2.25	7,162
Aug. 1977	11,671	1.49	17,390	1.75	20,424

OPTIONS OUTSTANDING AT DECEMBER 31, 1976

May 1973	49,889	\$ 7.00	\$349,223	\$ 8.25	\$411,584
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

OPTIONS EXERCISED

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

employees, officers and directors. These options are exercisable from the date of grant until May 9, 1978.

The 1970 Stock Option Plan is separated into two separate plans, (1) The U.S. Qualified Stock Option Plan intended for U.S. employees of Javelin and (2) Plan No. (2) 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 are reserved. The options are granted at a price not less than fair market value on the day of the grant. Under Plan No. (2) 143,221 shares are reserved. The options are granted at a price not less than 85% of the fair market value of the stock on the date of the grant.

Javelin's 1964 Stock Option Plan terminated during 1976.

NOTE 18 Prior Period Adjustments

Retroactive adjustments have been made to restate the balance of retained earnings as at December 31, 1975, previously reported as \$1,227,376, for the settlement of a dispute over the amount of prior years' costs and for the correction of prior years errors as follows:

- (a) Retained earnings as at December 31, 1975, were decreased by \$1,204,954 representing the amount of the J. C. Doyle arbitration judgment (See Note 25) related to prior periods ending on or before December 31, 1975.
- (b) Retained earnings as at December 31, 1975, were increased by \$73,118. This represents amounts Bison agreed to reimburse the Company for certain exploration costs incurred on behalf of Bison in the amount of \$188,448 less the effect of this charge on the Company's investment in Bison.

The net effect of the above items is a reduction in retained earnings as at December 31, 1975, of \$1,131,836.

The net loss for the year ended December 31, 1976, previously reported as \$3,244,348 has been restated to give effect to the following item:

The arbitration award determining the Doyle claim relating to 1976 in the amount of \$88,563, reduces income before extraordinary items by \$88,563 (\$0.01 per share) and increases net loss for the year by \$88,563 (\$0.01 per share).

NOTE 19 Direct Cost of Royalties Earned

Included in Direct Cost of Royalties Earned are the following:

- (i) Amortization Expense (See Note 1(e)) amounting to \$628,909 in both 1977 and 1976.
- (ii) Provincial mineral royalties and mining taxes.
- (iii) 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.

NOTE 20 Income Taxes

(a) Current Income Taxes

The lack of a provision for income taxes in 1977 is primarily attributed to:

- (i) The inclusion of non-taxable dividends from a Canadian corporation in consolidated income.
- (ii) The inclusion in consolidated income of income from foreign subsidiaries that is exempt from taxation in the foreign countries within which the income is earned.
- (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.
- (v) The inclusion in consolidated income of non-taxable income adjustment resulting from recognizing profit on sale of shares under Javelin-Wabush Iron Contract.

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 1977 was \$1,269,116 (1976 — \$910,316).

(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 a recent Federal Tax Assessment for the years 1970 through 1974, 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 this assessment and the adjustment reducing prior years unamortized preproduction expenses. Javelin has determined that \$3,141,725 of exploration and development expense recorded by a wholly-owned subsidiary would be an addition to unamortized preproduction expenses of Javelin for income tax purposes. This amount has been written off for accounting purposes and would therefore eliminate the timing difference that may be created should the Government prevail (See Note 13(b)).

(c) Loss Carry-Forwards

Javelin has available \$3,788,000 of operating losses carry-forward to reduce future income taxes. If not utilized, the carry-forward would expire as follows:

1980	\$1,220,200
1981	1,908,400
1982	659,400

If the Government's position on the tax assessment were to prevail, the carry-forward of operating losses could be reduced as much as \$2,427,317.

NOTE 21 Extraordinary Items

	Extraordinary Income (Losses)	
	1977	1976
Settlement of "Bonime" Litigation (See Note 15(a))	\$ —	\$ (1,350,000)
Allowance in Respect of Julienne Lake Property (See Note 6)	—	(2,799,271)
*Elimination of Liability to Bison	184,300	—
	<u>\$184,300</u>	<u>\$ (4,149,271)</u>

*Income arising from the elimination of a liability to an unconsolidated subsidiary "Bison" resulting from the Bison's nonfulfillment 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
	<u>\$ 184,300</u>

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 Societe Transshipping (See Note 15(j)). The cost of the mineral rights obtained and additional exploratory work completed since acquisition is \$4,233,039 at December 31, 1977 (\$4,150,606 at December 31, 1976).

On July 14, 1976, those exercising de facto control over the Board of Directors of Javelin decided to immediately abandon the mineral concession 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 (See Note 15(j)).

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 an 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 on behalf of the Company used 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 nickelferous 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 \$322,600 for the year ended December 31, 1977, and \$410,024 for the year ended December 31, 1976.

NOTE 24 Subsequent Events

Dismissal of Special Counsel to Compliance Committee

On March 16, 1978, Javelin gave notice to Mr. Meyer Eisenberg as Special Counsel to Javelin Compliance Committee under a 1974 consent decree that effective March 27, 1978, his appointment as Special Counsel would be terminated. As required, a copy of that letter, which sets forth the reasons for his discharge, was filed with the SEC.

Under the 1974 consent decree entered in the United States District Court in New York, Javelin appointed Mr. Meyer Eisenberg of the law firm of Lawler, Kent & Eisenberg, Washington, D.C., as Special Counsel to the Compliance Committee. The Special Counsel is to review all SEC filings and press releases so that all information disseminated to the public complies with the United States Securities laws. Javelin is proceeding promptly to appoint new Special Counsel.

NOTE 25 Transactions with Related Parties

- (a) The Company made provision in its accounts for 1976 to reimburse Mr. John C. Doyle, a shareholder

of Javelin for legal and other expenses of \$263,608 incurred by Mr. Doyle from March 4, 1976, through July 30, 1976, in connection with the change in management, which occurred on March 6, 1976.

- (b) 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. Discussions between Mr. Doyle, Export, Pavonia S.A. and Javelin in that respect have resulted in an agreement which is described in Note 29. 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.).

- (c) Consulting contract with Mr. John C. Doyle (See Note 14(a)).

NOTE 26 Changes in Corporate Structure

Effective September 30, 1977, Javelin implemented a general restructure of its overseas subsidiaries pursuant to which the Artena S.A., Javelin Export Limited, Javelin International Limited and Minas San Christobal 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 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>
(Less) Add Common Costs		
Administrative and General		\$ (4,725,705)
Marketing		(287,868)
Interest Expense		(725,569)
Unallocated Depreciation		(34,267)
Gain on Foreign Currency Conversion		712,621
		<u>\$ (5,060,788)</u>
Income Before Extraordinary Items		\$ 6,171,184
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	\$20,980,983	\$ 644,661
Sales of Bullion	1,292,981	94,554
Interest and Other	20,352,035	1,643
Subsidiaries in the Stage of Exploration and Development	9,457,428	6,912
	<u>\$52,083,427</u>	<u>\$ 747,770</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:

	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	\$ 9,796,329	\$ 1,435,643	\$11,231,972
(Less) Add Common Costs			
Administrative and General			\$ (4,725,705)
Marketing			(287,868)
Interest			(725,569)
Unallocable Depreciation			(34,267)
Gain on Foreign Currency Conversion			712,621
			<u>\$ 5,060,788</u>
Income Before Extraordinary Items			\$ 6,171,184
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	27,952,639	102,509	
	<u>\$52,083,427</u>	<u>\$ 747,770</u>	

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

NOTE 28 Differences in Application of United States and Canadian Generally Accepted Accounting Principles

(a) Net Income Reconciliation	1977	1976
Income Before Extraordinary Item per Statement of Operations — as Determined in Accordance with Canadian Generally Accepted Accounting Principles (G.A.A.P.)..	\$ 6,171,184	\$ 816,360
Add (Deduct):		
Settlement of Shareholders' Claim	(1,293,517)	88,563
Adjustment for Amortization of Deferred Liability Under Individual Retirement Agreements (See Note 14(c))	14,613	13,252
Income Before Extraordinary Item as Determined in Accordance with United States G.A.A.P.	\$ 4,892,280	\$ 918,175
Extraordinary Item (See Note 21)	184,300	(4,149,271)
Net Income (Loss) as Determined in Accordance with United States G.A.A.P.	<u>\$ 5,076,580</u>	<u>\$(3,231,096)</u>
Earnings Per Share (per United States G.A.A.P.)		
Income (Loss) Before Extraordinary Income	\$ 0.68	0.13
Extraordinary Income (Loss).....	0.03	(0.58)
Net Income (Loss)	<u>\$ 0.71</u>	<u>\$ (0.45)</u>

(b) Reconciliation of Retained Earnings (Deficit)

Balance per Statement of Retained Earnings as at December 31, 1975	\$1,227,376
Less: Increase in Parent Company's Interest in its Subsidiary Arising from Issuance of Capital Stock by the Subsidiary in 1973 (See Note 28(c))	(419,350)
Retained Earnings as at December 31, 1975 in Accordance with the	

United States G.A.A.P. as Previously Reported	\$ 808,026
Add: Prior Period Adjustment in Accordance with the United States and Canadian G.A.A.P. (Note 18(b))	73,118
Less: Prior Period Adjustment Under the United States G.A.A.P. to Record Liability under Individual Retirement Agreements Entered Into Before December 31, 1975	(293,613)
Retained Earnings as at December 31, 1975 in Accordance with the United States G.A.A.P. as Restated	\$ 587,531
Net Loss for 1976 in Accordance with the United States G.A.A.P. (See Note 28(a))	(3,231,096)
Deficit — December 31, 1976	\$(2,643,565)
Net Income for 1977 in Accordance with the United States G.A.A.P. (See Note 28(a))	5,076,580
Retained Earnings as at December 31, 1977, in Accordance with the United States G.A.A.P.	<u>\$ 2,433,015</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 29 Subsequent Related Party Transactions

On April 5, 1978, Javelin, Export, Pavonia and Mr. Doyle reached an agreement regarding the payment to Mr. Doyle of the arbitrator's award of \$2,630,013 (U.S.), plus interest at 6% per annum from September 30, 1977, which was to be due on January 2, 1979 (the "Indebtedness"), unless superseding provisions for payment were agreed on by the parties to the arbitration (the "Agreement"). Mr. Doyle agreed to extend the time for payment of the Indebtedness from January 2, 1979 to April 5, 1983 and to allow the prepayment of the Indebtedness, in whole or in part, without charge. Javelin agreed that the outstanding balance of the Indebtedness will 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 addition, Javelin granted to Mr. Doyle an option to purchase up to 4,200,000 common shares of Javelin (the "Common Shares") at a purchase price of \$1.00 per share, in cash or by the reduction of the Indebtedness in the aggregate amount of the purchase price of the Common Shares being purchased (the "Option"). If the Indebtedness is reduced as a result of an exercise of the Option, interest at the rate of 6% per annum will be payable to Mr. Doyle on the amount of such reduction from the reduction date until April 5, 1983. The Option will expire on the later of April 5, 1983 or such date on which the Indebtedness has been fully discharged. Mr. Doyle's rights to payment of the Indebtedness and to the Option are transferable. The Agreement also provides for the conversion of the Indebtedness into \$3,062,311 Canadian dollars, being the conversion at 13% of a total of \$2,710,010 (U.S.), consisting of \$2,630,013 (U.S.) awarded as of September 30, 1977 plus \$79,997 (U.S.) as interest thereon at the rate of 6% per annum from September 30, 1977 through April 5, 1978. Upon Mr. Doyle's request, Javelin and Pavonia will provide him with reasonable and commercially acceptable security for

the payment of any outstanding balance of the Indebtedness.

On May 26, 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. Mr. Doyle will have the right to vote the 1,460,000 Common Shares for the period the Common Shares are owned by Pole up to seven years from the time the shares are issued, except that if Pole disposes of the shares within five years from their issuance date, Mr. Doyle's voting rights will continue until the five-year period expires. Mr. Doyle will have the right of first refusal to purchase the 1,460,000 Common Shares from Pole upon the same terms as in any proposed disposition, for a thirty-day period after demand by Pole that he exercise such right. Mr. Doyle also has the right, between the fifth and seventh year after the date the 1,460,000 Common Shares are issued, to purchase at \$5.00 per share any of the 1,460,000 Common Shares then owned by Pole. Mr. Doyle also has the right to receive 70% of any profit Pole may realize from the sale of its Common Shares in excess of (i) Pole's net investment in its 1,460,000 Common Shares (ii) plus \$2,700,000. In addition, if at any time the Common Shares trade, on any securities exchange where such shares are listed, at a market price in excess of a sum which, if Pole's Common Shares were then sold, equals Pole's net investment in its Common Shares plus \$2,700,000, Mr. Doyle will have the right to acquire Pole's Common Shares at a price equal to their then market price less 70% of the profit in excess of (i) Pole's net investment in its Common Shares that would result from the sale of such shares at their then market price (ii) plus \$2,700,000.

As contemplated by the assignment agreement between Mr. Doyle and Pole, on May 26, 1978, Pole borrowed \$1,314,000 (U.S.) from Javelin's subsidiary, Pavonia S.A. for use in exercising its right to purchase 1,460,000 Common Shares under the Option. On the same date, Pole exercised its right to purchase the 1,460,000 Common Shares and, as payment of the purchase price, Pole deposited the loan proceeds of \$1,314,000 in the Banque Nationale de Paris on behalf of Javelin. Javelin has deposited the \$1,314,000 (U.S.) with a bank in Ottawa, Canada to serve as security for a tax assessment against Javelin in respect of its 1974 tax year. Pole is to repay the \$1,314,000 (U.S.) loan, without interest, within 15 days after the delivery of the 1,460,000 Common Shares. Javelin is currently seeking to obtain the approval of certain Canadian governmental authorities to the issuance of the 1,460,000 Common Shares to Pole, as advised by Javelin counsel. If the 1,460,000 Common Shares are not delivered to Pole by June 15, 1978 or such extended date as Pole may specify, Pole will have the right to cancel its exercise of the Option and require Javelin to return \$1,460,000 (but not less than \$1,314,000 (U.S.)). In such event, Pole will also have the right to assign to

Pavonia the right to require Javelin to return the \$1,460,000 (but not less than \$1,314,000 (U.S.)), to Pavonia in full discharge and satisfaction of Pole's obligations in respect of the \$1,314,000 (U.S.) loan. Mr. Doyle also assigned to Pole the right to receive \$1,460,000 of the Indebtedness to enable Pole to assign to Pavonia a security interest in such \$1,460,000 of the Indebtedness to secure repayment of the loan made by Pavonia to Pole. Pole has

assigned the security interest to Pavonia so that if Pole fails to repay the \$1,314,000 (U.S.) loan to Pavonia or any part thereof, Pavonia will have the right to proceed against the assigned portion of the Indebtedness to the extent necessary to be made whole. Pole's security interest in \$1,460,000 of the Indebtedness will terminate upon repayment of Pavonia's loan to Pole. (See Note 25(b)).

Auditors' Report

To the Shareholders and Board of Directors of
Canadian Javelin Limited and Subsidiaries

We have examined the Consolidated Balance Sheets of CANADIAN JAVELIN LIMITED AND SUBSIDIARIES, as at December 31, 1977 and 1976 and the related Consolidated 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 14% and 6% for 1977 and 23% and 10% for 1976, 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 the current year 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 prior years.

As disclosed in Notes to the 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(a), the Company may be contingently liable for a third party demand made by the Receiver General for Canada.
- (2) As disclosed in Note 13(b), a review by Canadian Federal Taxation authorities has given rise to an income tax assessment to which the Company has filed a Notice of Objection. The outcome of this matter is unresolved.
- (3) 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 examinations 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, 1977 and 1976, and 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.

Montreal, Quebec
March 29, 1978 except for Notes 5, 15(s), 15(w)
and 29 as to which the date is June 2, 1978.

ROSTON, REINHARZ, BRATT, FREMETH
Chartered Accountants

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

Fiscal Years ended December 31, 1977 and 1976

REVENUE — 1977 Compared to 1976

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 improvement was that in the current year the Company has recognized \$5,366,746 as profit from the previous sale on January 30, 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 the increase in royalty rates. During 1977, 5,550,971 tons of iron ore were shipped compared to 5,399,641 tons in 1976. Royalty 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 the increased shipments of iron ore and increased rate per ton of ore.

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 \$11,215,333, an increase of \$1,637,945 over 1976.

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

Administrative and General Expenditures increased by \$913,787 which reflected for the most part increased professional fees.

Interest expense during 1977 increased by \$201,830 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 \$712,621 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 \$712,621 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 ITEMS

The total amount of extraordinary items was \$184,300 in 1977 which represented income arising from the elimination of a liability to an unconsolidated subsidiary Bison Petroleum & Minerals Limited ("Bison") resulting from Bison's nonfulfillment of a contract.

The total amount of extraordinary items 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.

REVENUE — 1976 compared to 1975

Gross revenue from all sources of the Company's operations for the year ended December 31, 1976, totalled \$10,537,293, an increase of \$4,522,096 from the year ended December 31, 1975.

The main component of this improvement was increased royalties earned on the Company's Wabush Property due to the resumption of normal shipments for all of 1976 following a year in which strikes and work stoppages affected shipments in 1975. During 1976, 5,399,641 tons of iron ore were shipped compared to 3,206,765

tons in 1975. Royalty rates rose to \$1.33212 per ton at December 31, 1976 compared to \$1.22372 at December 31, 1975, an increase of \$0.10840 per ton. Revenue from the Javelin-Wabush Iron Contract increased in 1976 by \$424,794 over revenue in 1975 as a result of the increased shipments of iron ore.

Gross sales from the Company's gold and silver mine in El Salvador declined marginally due to a decline in bullion production.

Interest revenue from the Company's holdings of Republic of Panama bonds received in compensation for the expropriation of the Cerro Colorado property totalled \$1,468,400 in 1976, an increase of \$1,096,400 compared to 1975, since 1976 was the first full year the Company had held these bonds.

OPERATING EXPENSES

Operating Expenses for 1976 totalled \$9,577,388, an increase of \$2,654,569 over 1975.

Costs of royalties and mining taxes payable to the Province of Newfoundland increased by \$1,607,383 due to the increased shipments of iron ore from the Company's Wabush Property.

Administrative and General Expenditures including interest increased by \$890,504, which reflected for the most part increased legal costs due to various litigations.

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 loss of \$149,145 in 1976 compared to a gain of \$217,729 for 1975. The value of \$ U.S. in relation to \$ CDN declined from \$1 U.S. = \$1.02 CDN at January 1, 1976 to \$1 U.S. = \$1.01 CDN at December 31, 1976 resulting in a loss of \$149,145 for 1976.

Correspondingly, the value of \$ U.S. in relation to \$ CDN increased from \$1 U.S. = \$0.996 CDN at January 1, 1975 to \$1 U.S. = \$1.02 CDN at December 31, 1975 creating a gain of \$217,729 for 1975.

EXTRAORDINARY ITEMS

The total amount of extraordinary items 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".

In 1975, \$1,749,456 was written off due to termination abandonment or expropriation of the Company's property.

INCOME TAXES

The lack of provision for income taxes in 1976 is attributable to the inclusion in income of items that are non-taxable, to the extent that taxable income for the year is nil. The provision for income taxes in 1975 was to provide for an estimated tax liability arising from a review by taxation authorities for years up to and including 1974.

Five Year Summary of Operations

DECEMBER 31, 1977 (in Canadian Dollars)

	1977	1976	1975	1974	1973
Revenue					
Gross Royalties Earned	\$ 7,710,910	\$ 6,969,602	\$3,805,982	\$5,286,672	\$4,311,544
Sales	1,013,719	1,080,804	1,335,799	1,226,657	567,170
Interest and Other	1,566,176	1,569,004	380,327	81,177	264,850
Income Under Javelin-Wabush Iron Contract	1,016,345	917,883	493,089	694,202	565,448
Income Adjustment Resulting From Recognizing Profit on Sale of Shares Under Javelin-Wabush Iron Contract	5,366,746	—	—	—	—
	<u>\$16,673,896</u>	<u>\$10,537,293</u>	<u>\$6,015,197</u>	<u>\$7,288,708</u>	<u>\$5,709,012</u>
Costs and Expenses					
Direct Costs of Royalties Earned	\$ 4,307,929	\$ 3,958,936	\$2,351,553	\$2,390,027	\$2,065,416
Cost of Sales	1,106,544	1,002,840	814,641	719,885	470,454
Administrative and General	5,451,274	4,335,657	3,445,153	2,242,041	2,076,530
Marketing	287,868	228,047	264,198	233,247	338,655
Depreciation	61,718	51,908	47,274	32,916	14,720
	<u>\$11,215,333</u>	<u>\$ 9,577,388</u>	<u>\$6,922,819</u>	<u>\$5,618,116</u>	<u>\$4,965,775</u>
Operating Profit (Loss)	<u>\$ 5,458,563</u>	<u>\$ 959,905</u>	<u>\$ (907,622)</u>	<u>\$1,670,592</u>	<u>\$ 743,237</u>
Other (expenses) Income					
(Loss) on Unconsolidated Subsidiaries	\$ —	\$ —	\$ —	\$ —	\$ (30,009)
Gain (Loss) on Foreign Currency Conversion	712,621	(149,145)	217,729	58,387	(4,496)
Equity in Earnings (Losses) of unconsolidated Subsidiaries	—	5,600	(223,148)	(50,382)	(50,959)
	<u>\$ 712,621</u>	<u>\$ (143,545)</u>	<u>\$ (5,419)</u>	<u>\$ 8,005</u>	<u>\$ (85,464)</u>
Income (Loss) Before Income Taxes and Extraordinary Items	<u>\$ 6,171,184</u>	<u>\$ 816,360</u>	<u>\$ (913,041)</u>	<u>\$1,678,597</u>	<u>\$ 657,773</u>
Provision for Income Taxes	—	—	200,000	—	—
	<u>\$ 6,171,184</u>	<u>\$ 816,360</u>	<u>\$ (1,113,041)</u>	<u>\$1,678,597</u>	<u>\$ 657,773</u>
Extraordinary Items	184,300	(4,149,271)	(1,749,456)	155,808	(539,748)
Net Income (Loss) for the Year	<u>\$ 6,355,484</u>	<u>\$ (3,332,911)</u>	<u>\$ (2,862,497)</u>	<u>\$1,834,405</u>	<u>\$ 118,025</u>
Net Income (Loss) per Share	<u>\$ 0.89</u>	<u>\$ (0.47)</u>	<u>(0.40)</u>	<u>\$ 0.26</u>	<u>\$ 0.02</u>
Number of Shares (weighted average) ..	7,169,648	7,169,648	7,169,648	7,169,407	6,419,706

Shareholder Information

	1977	1976	1975	1974	1973
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	6,420
Earnings (losses) per share before extraordinary items	\$ 0.86	\$ 0.11	\$ (0.16)	\$ 0.23	\$ 0.10
Extraordinary gains (losses) per share	0.03	(0.58)	(0.24)	0.02	(0.08)
Net earnings (losses) per share	0.89	(0.47)	(0.40)	0.25	0.02
Shareholders' equity per share	6.46	5.57	6.04	6.43	5.73

The Company has not paid any dividends during the two year period ended December 31, 1977.

Financial Position

(in thousands)

Working Capital (Deficiency)	\$(1,316)	\$(3,917)	\$(3,415)	\$3,552	\$(1,848)
Long term debt	7,539	3,806	4,114	8,303	13,885
Shareholders' equity	46,300	39,944	43,277	46,137	36,805

Common Shares

Price Range

	VANCOUVER EXCHANGE*		MONTREAL EXCHANGE**			
	1977		1976		1975	
	High	Low	High	Low	High	Low
1st quarter	—	—	2½	1½	10%	6¼
2nd quarter	—	—	2½	1½	7%	3
3rd quarter (July 1976, trading suspended)	2.75	1.50	—	—	3¾	1½
4th quarter	1.65	.85	—	—	3	1¾

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

* Vancouver Exchange resumed trading July 14, 1977.

** The Montreal Stock Exchange delisted the shares of the Company as at the close of business on July 29, 1977. The delisting is under appeal to the Quebec Securities Commission.

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

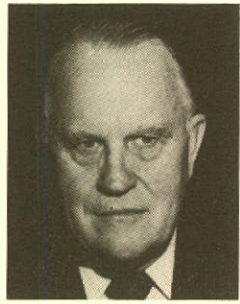
**Executive
Officers**

Raymond Balestreri
President

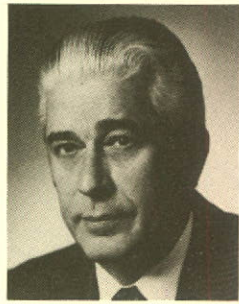
Julius Mallin
Secretary

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

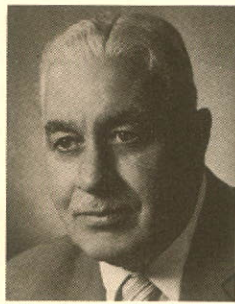
Board of Directors



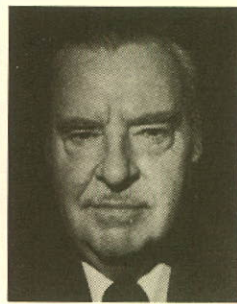
**°General
Jean V. Allard, (R'td),
C.C., C.B.E., D.S.O.**
*President,
Anpo Ltée*
Trois Rivières, Quebec



†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



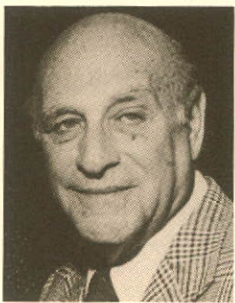
**°††Honourable
Senator Sarto
Fournier, Q.C.**
*Chairman of the Board
Canadian Javelin Limited
Barrister & Solicitor
Member of the Senate
of Canada*
Hull, Quebec



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



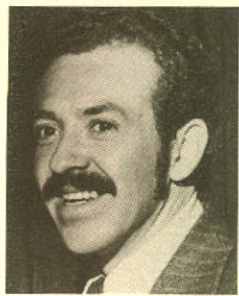
†Tore Korch
*Managing Director
of Sonitel, S.A.*
Panama City,
Republic of Panama



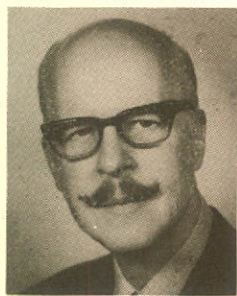
Ernesto Maduro
*President,
I. L. Maduro Jr., S.A.*
Panama City,
Republic of Panama



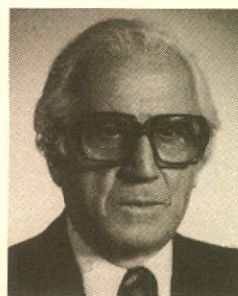
†Manuel J. Paredes
*Director,
Companie de LeFevre*
Panama City,
Republic of Panama



**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

Incorporated under Federal Charter in June 1951



Printed in Canada.