LIBERIAN IRON ORE LIMITED

Annual Report 1985

LIBERIAN IRON ORE LIMITED

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Douglas Building,
72 University Avenue,
Charlottetown,
Prince Edward Island,
Canada.

Notice of Annual Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Liberian Iron Ore Limited will be held at the office of Ogilvy, Renault, Suite 1200, 1981 McGill College Avenue, Montreal, Quebec, Canada, on Wednesday, June 11, 1986 at the hour of 12 o'clock noon, Eastern Daylight Saving Time, for the following purposes:

1. To receive the annual report of the Board of Directors and the financial statements of the Corporation and the auditors' report thereon for the year ended December 31, 1985;

2. To elect directors;

3. To appoint auditors; and

4. To transact such other business, if any, as may properly come before the meeting.

By the order of the Board of Directors:

Ingemar Uussaar
Secretary

April 2, 1986

If you are unable to be present in person, please date, sign and return the enclosed form of proxy in the envelope provided for that purpose.

SOLICITATION OF PROXIES

This Management Proxy Circular is furnished in connection with the solicitation by the management of Liberian Iron Ore Limited (the "Corporation") of proxies to be used at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the foregoing notice of the meeting. The solicitation will be by mail. The cost of solicitation by management will be borne by the Corporation. The Corporation may pay persons holding shares in their names or those of their nominees for their expenses in sending soliciting material to their principals.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named as proxy in the accompanying form of proxy are directors of the Corporation.

A shareholder desiring to appoint some other person to represent him at the meeting may do so either by striking out the printed names and inserting the name of his nominee in the blank space provided for that purpose in the accompanying form of proxy or by completing another form of proxy containing the name of such person. A person acting as proxy need not be a shareholder of the Corporation.

A shareholder who executes and returns the accompanying form of proxy may revoke it, in addition to any other manner permitted by law, by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment therof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting, or any adjournment thereof.

VOTING SHARES

The Corporation has outstanding 3,955,025 common shares without nominal or par value, each carrying the right to one vote per share. The directors and officers of the Corporation do not know of any person or company beneficially owning or exercising control or direction over shares carrying more than 5% of the votes attached to all shares of the Corporation, other than The Swedish LAMCO Syndicate, Gränges AB & Co, Handelsbolag (the "Syndicate"), which owns beneficially 2,959,040, or approximately 74.8%, of the outstanding shares. Gränges AB, a Swedish company, also beneficially owns such shares indirectly as the holder of the entire interest in the Syndicate. Gränges AB is a subsidiary of AB Electrolux, also a Swedish company.

ELECTION OF DIRECTORS

The Board of Directors consists of five directors to be elected at each annual meeting of shareholders. Except where authority to vote on the election of directors is withheld, the persons named as proxy in the accompanying form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the Board of Directors. The management of the Corporation does not contemplate that any of the nominees will be unable, or for any reason will become unwilling, to serve as a director but, if that should occur for any reason prior to the election, the persons named as proxy in the accompanying form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next annual meeting or until his successor is duly elected, unless his office is earlier vacated by resignation, death or incapacity.

Name, age, nationality, position and office with the Corporation and principal occupations and employment during the last five years	Became director	Approximate number of the Corporation's voting shares (common shares) beneficially owned or over which control or direction is exercised (1)
Bo Abrahamsson, 54 (Swedish) Vice Chairman of the Corporation; Vice Chairman (since May 1982) and President (from June 1, 1977 until May 1982) of Gränges AB (mining and nonferrous metals fabrication); and President and owner of Motivation Bo Abrahamsson AB (management consultants), Stockholm, Sweden.	1978	1 (2)
Gösta Bystedt, 56 (Swedish) Chief Executive Officer of AB Electrolux (manufacturer of household appliances, machinery and equipment); and President of Gränges AB (mining and non-ferrous metals fabrication), Stockholm, Sweden.	1983	– (2)
Brock F. Clarke, Q.C., 66 (Canadian) Partner of the law firm of Ogilvy, Renault, Montreal, Quebec, Canada.	1963	9
Alan G. Thompson, 58 (Canadian) Chairman of Brink, Hudson & Lefever Ltd. (investment dealers and stock brokers), Vancouver, British Columbia, Canada.	1974	1,000
Hans Werthén, 66 (Swedish) Chairman of the Corporation, Chairman of AB Electrolux (manufacturer of household appliances, machinery and equipment); and Chairman of Gränges AB (mining and non-ferrous metals fabrication), Stockholm, Sweden.	1977	1 (2)

(1) The information as to the number of shares beneficially owned or over which control or direction is exercised, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually. None of the directors owns beneficially more than 1/10th of 1% of the outstanding common shares.
(2) Does not include 2,959,040 shares owned by the Syndicate, as to which such person may be deemed do be a "controlling person".

In addition to the common shares of the Corporation set forth above, Messrs. Bystedt and Werthén own beneficially 205,789 shares and 583,650 shares (25 Kronor), respectively, of AB Electrolux.

The directors and officers of the Corporation as a group beneficially own 1,021 (less than 1%) common shares of the Corporation and 789,439 (approximately 2.9%) shares (25 Kronor) of AB Electrolux.

During 1985, there were four regular and special meetings of the Board of Directors of the Corporation. Mr. Werthén attended three of the meetings of the Board of Directors held in 1985.

The Corporation does not have a nominating or compensation committee. The Corporation's Audit Committee was established on December 9, 1980 and its members are Messrs. Abrahamsson, Clarke and Thompson. The Audit Committee is responsible for recommending to the Board of Directors the auditor of the Corporation and of ensuring that both the management and the auditor of the Corporation are satsified that the procedures followed in preparing the financial statements are in accordance with generally accepted accounting principles, that the procedures followed for the verification of the financial statements are in accordance with generally accepted auditing standards and that the accounting and auditing procedures followed are in the best interests of the Corporation. The Audit Committee does not have responsibility nor authority to alter the financial statements or the accounting procedures of the Corporation.

REMUNERATION OF DIRECTORS AND OFFICERS IN 1985

The following table sets forth the remuneration paid by the Corporation, The Liberian American-Swedish Minerals Company ("LAMCO"), the LAMCO J.V. Operating Company and the LAMCO Joint Venture ("the Joint Venture") during 1985 to the persons who were directors or executive officers of the Corporation at any time during 1985 as a group:

	Cash and Cash-equivalent forms of remuneration				
	Directors' Fees	Salaries, Fees, Commissions, Bonuses, Non-accountable Expense Allowance and Other	Securities or property, insurance benefits or reimbursement, personal benefits	Aggregate of contingent forms of remuneration	Total
(A) Number of directors: 5 Number of executive officers: 7*					
(B) Body corporate incurring the expense:					
(1) The Corporation	$40,000	–	–	–	$40,000
(2) LAMCO	1,800	–	–	–	1,800
(3) The Joint Venture	100	–	–	–	100
	$41,900	–	–	–	$41,900

*Two of the seven executive officers were also directors.

No remuneration in excess of $40,000 (Canadian) was paid during the year to any officer of the Corporation in his capacity as such.

Since the accounts of the Corporation are maintained in U.S. dollars, all money amounts appearing in this Management Proxy Circular are in U.S. dollars, except as otherwise indicated.

None of the Corporation, LAMCO nor the Joint Venture has any plan or arrangement pursuant to which the directors or officers of the Corporation will receive any remuneration payments in the future or upon termination of employment. In addition, none of them has any pension or retirement plans. The directors of the Corporation receive a fee of $500 for each meeting of directors attended and held immediately following the Annual Meeting of Shareholders, a fee of $3,000 for each meeting that is held in conjunction with a LAMCO meeting and fees for other meetings determined by the directors depending upon the circumstances. No options to purchase any securities from the Corporation, LAMCO or the Joint Venture were granted to or exercised by any officer or director of the Corporation during 1985. Neither the Corporation, LAMCO nor the Joint Venture has ever granted any stock options. No director or officer of the Corporation was indebted to the Corporation, LAMCO or the Joint Venture during 1985.

Interest in Transactions

In 1960 the Government of the Republic of Liberia granted a mining concession to LAMCO and Bethlehem Steel Corporation ("Bethlehem"), who together formed the Joint Venture, with interests in it of 75% and 25%, respectively. Bethlehem assigned its interest to a wholly owned subsidiary, Liberia Bethlehem Iron Mines Company ("LIBETH"). The Government of Liberia has acquired through a wholly owned company, Liberian Mining Corporation ("LIMINCO"), the 25% interest in the LAMCO Joint Venture previously held by LIBETH. The agreement is effective as from January 1, 1984. LAMCO has given its consent to the acquisition. The common stock of LAMCO is owned by the Government of Liberia (50%) and the Corporation (50%). The Corporation's major shareholder, the Syndicate, is owned by Gränges AB.

By agreement among LAMCO, LIMINCO and the Syndicate, Gränges AB is employed as manager of the Joint Venture. For its management services in 1985, Gränges AB received a fee of $777,000. LAMCO has retained Gränges AB as its exclusive sales agent for LAMCO's share of the Joint Venture iron ore production. For its services in 1985 under this agreement, Gränges AB received a fee of $1,714,000. In addition, Gränges International Mining, a division of Gränges AB, received $174,851 for management and administrative services rendered to LAMCO in 1985.

During 1985, the Syndicate provided goods or services to the Joint Venture in the ordinary course of its business. Gränges AB received approximately 657,000 Kronor for products sold to the Joint Venture, and AB Electrolux, 260,000 Kronor for products sold to the Joint Venture.

The law firm of Ogilvy, Renault, of which Mr. Clarke, a director of the Corporation, is a partner, accrued fees of $78,500 (Canadian) from the Corporation for legal services rendered during 1985.

Annual Report, Financial Statements and Auditors' Report

The annual report of the Board of Directors of the Corporation and the financial statements of the Corporation for the year ended December 31, 1985 and the auditors' report thereon will be presented to the meeting for the inspection of shareholders.

Appointment of Auditors

Price Waterhouse have served as auditors of the Corporation since its incorporation in 1958. Shareholders of the Corporation who wish to submit questions to the auditors shall give written notice, not less than 10 days before the meeting, to the auditors, Price Waterhouse, Box 1612, S-111 86 Stockholm, Sweden. Attention: Jörgen Eskilsson, and should send a copy to the Secretary of the Corporation c/o Gränges International Mining, S-105 45 Stockholm, Sweden. A representative of Price Waterhouse will not be present at the meeting unless such a notice has been received by the auditors. Except where authority to vote with respect to the appointment of auditors is withheld, the persons named as proxy in the accompanying form of proxy will vote for the re-appointment of the auditors of the Corporation at the meeting.

During the fiscal year ended December 31, 1985, Price Waterhouse provided audit services which included the examination of the financial statements of the Corporation, LAMCO and the Joint Venture and the review of certain filings by the Corporation with the United States Securities and Exchange Commission.

SHAREHOLDER PROPOSALS

In order for a shareholder proposal to be considered for inclusion in the Management Proxy Circular relating to next year's (1987) Annual Meeting of Shareholders, the shareholder proposal must be received by the Corporation not later than March 1, 1987.

OTHER MATTERS

The management of the Corporation knows of no matters to come before the meeting other than those referred to in the notice of the meeting. **However, if any other matters should properly come before the meeting, the accompanying form of proxy confers discretionary authority upon the persons named as proxy therein to vote on such matters in accordance with their best judgment.**

APPROVAL BY DIRECTORS

The contents of this Management Proxy Circular, and the sending thereof to the shareholders of the Corporation, have been approved by the Board of Directors of the Corporation.

Dated: April 2, 1986

INGEMAR UUSSAAR
Secretary

Upon written request, the Corporation will provide without charge to any shareholder a copy of the Corporation's latest annual report on Form 10-K, including financial statements and schedules thereto, filed with the United States Securities and Exchange Commission pursuant to the United States Securities Exchange Act of 1934, or of the audited financial statements of The Liberian American-Swedish Minerals Company (LAMCO). Any such request should be directed to the Secretary, Liberian Iron Ore Limited, c/o Gränges International Mining, S-105 45 Stockholm, Sweden.

LIBERIAN IRON ORE LIMITED

Annual Report 1985

THE ANNUAL MEETING OF LIBERIAN IRON ORE LIMITED SHAREHOLDERS WILL BE HELD ON JUNE 11, 1986, AT 12 O'CLOCK NOON AT THE OFFICE OF OGILVY, RENAULT, 1981 McGILL COLLEGE AVENUE, SUITE 1200, MONTREAL, QUEBEC, CANADA.

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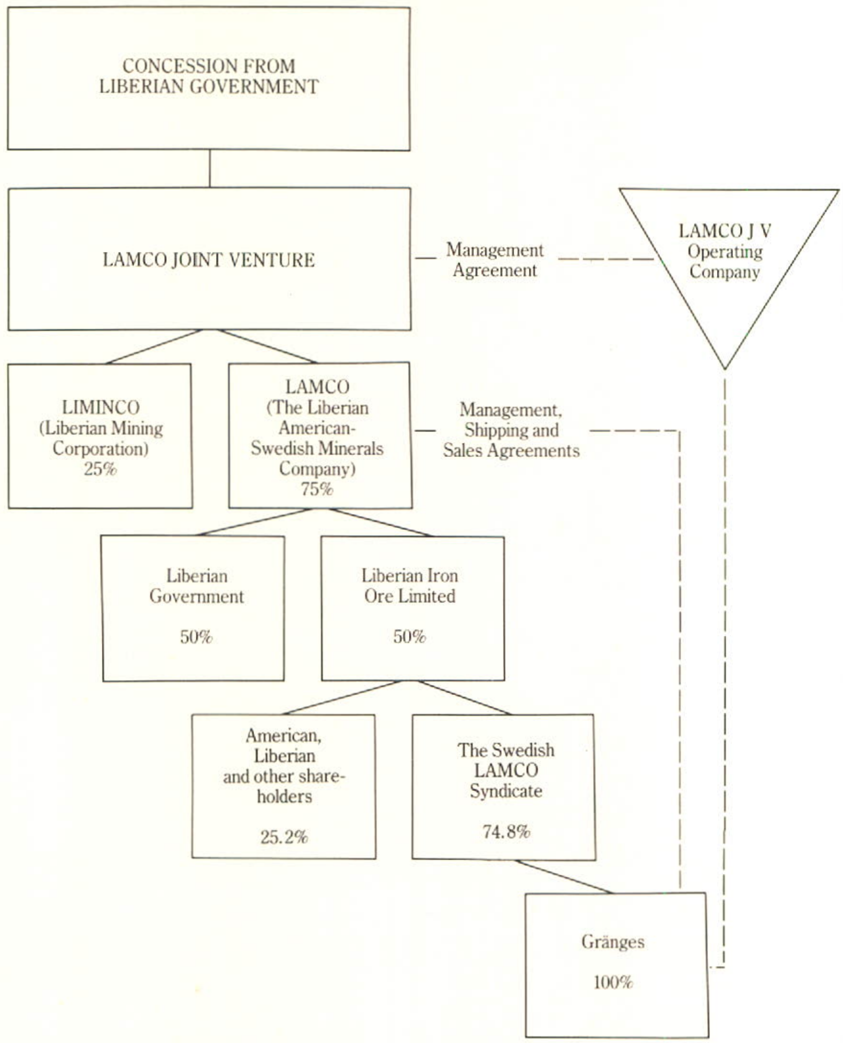
Liberian Iron Ore Limited (LIO)

is a partner with the Liberian Government in LAMCO, The Liberian American-Swedish Minerals Company. LAMCO, in turn, is a participant (75%) with Liberian Mining Corporation (LIMINCO), a wholly owned company of the Government of Liberia (25%), in the LAMCO Joint Venture iron ore project. This mining enterprise represents a basic investment of more than $350,000,000 in the development of high grade iron ore deposits in the Nimba Mountain region of Liberia. The mine, and the modern mining community, is connected by a 167-mile railroad with the Liberian port of Buchanan. Ore loaded here is shipped to steel plants in Europe, North America and Japan.

Lamco Joint Venture Ownership Structure



GRÄNGES INTERNATIONAL MINING

is a company in the Gränges AB Group, acting as Managing Agent for and on behalf of the Joint Venturers and as Sales Agent for LAMCO.

OFFICER
Arne Dahlström – *President*

HEAD OFFICE
S-105 45 Stockholm, Sweden

LAMCO J.V. OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICER
John L. Pervola – *President and General Manager*

HEAD OFFICE
P.O. Box 69, Monrovia,
Roberts International Airport, Liberia

Letter to the Shareholders

Prior to 1982, LIO accounted for the 50% investment in LAMCO under the equity method and, therefore, LIO's results were almost entirely dependent upon the results of operations of LAMCO. Effective January 1, 1982, the Board of Directors of LIO wrote down to $1 the investment in LAMCO and discontinued equity accounting for the investment. This decision was taken after reviewing the unfavorable (i) liquidity of LAMCO, (ii) projections for funds generation from the mining of the remaining high-grade ore reserves of LAMCO in Liberia and (iii) priority distribution of LAMCO's assets. Accordingly, since this write-down, LIO's results have been derived primarily from its management of its cash balances and costs of administration.

After writing down the investment in LAMCO, LIO's only other assets are cash and bank certificates of deposit and, as from July 17, 1985, marketable securities (preferred shares) of Canadian issuers. During 1985 LIO earned interest and received dividends on these investments at a combined rate of return of 6.9% (10.5% – 1984) on an average investment of $11,975,000 ($8,411,000 – 1984). LIO had a net profit of $9,658 or $0.002 per share in 1985 compared with a net profit of $1,077,621 or $0.27 per share in 1984.

To the extent that LIO recovers a portion, if any, of its original investment in LAMCO, such gain will be recognized by LIO in the period during which LIO receives unencumbered cash distributions from LAMCO. Note 4 refers to the Series C preferred stock redemption by LAMCO in 1985 in respect of which the gain of $6,050,000 was offset by a reserve in the same amount.

The Board of Directors of LAMCO determined during 1982 to authorize the redemption of all shares of Series A, B and C preferred stock, the redemption dates of which had previously been waived by the preferred stockholders. Such redemption took place on January 7, 1983 and LIO received $2,750,000. Simultaneously with and contingent upon such redemption, LIO renounced the payment of accrued but unpaid dividends of $3,183,000 through January 7, 1983. LAMCO effected such redemptions through long-term borrowings guaranteed or assisted by the holders of the Series A, B and C preferred stock in the proportion of the redemption proceeds received by them. Because of LAMCO's financial condition, LIO has reflected the funds pledged by it as security for a loan to LAMCO as a reduction of its cash.

In June 1983 the Board of Directors of LAMCO determined to authorize the next scheduled redemption and LIO received $550,000 while renouncing the payment of accrued but unpaid dividends of $196,000. Such redemption and the related guarantee and pledge were effected in the same manner as was followed for the January 7, 1983 redemption described above.

LIO and the other preferred stockholders renounced the dividends accruing between June 15, 1983 and July 31, 1984, amounting to $2,022,000 of which $472,000 was owed to LIO, simultaneously with and contingent upon LAMCO redeeming preferred stock, which redemption was effected on July 31, 1984 when $550,000 of Series C preferred stock held by LIO was redeemed out of available funds of LAMCO. As a result, LIO did not have to guarantee any borrowings by LAMCO as was necessary for the two prior redemptions, and therefore this redemption has been considered as a partial recovery of the previous write-down of the LIO, investment and accordingly a gain in the amount of $550,000 has been recorded in income.

As a result of representations made on behalf of LIO, a remission order under the Financial Administration Act of Canada has been issued and was published on November 14, 1984, to the effect that the gain on the disposition, whether before or after that date, of Series C preferred stock of LAMCO owned by LIO will be treated in the same way as if the Canada-Liberia Income Tax Convention (1976) had been ratified. This resulted in a reduction of $190,500 in the tax payable and provided for in respect of the dispositions made in 1983, which reduction was reflected in the provision for Canadian income taxes for 1984.

LIO and the other preferred stockholders renounced the dividends accruing between July 31, 1984 and December 2, 1985, amounting to $2,179,000 of which $512,569 was owed to LIO, simultaneously with and contingent upon LAMCO redeeming preferred stock, which redemption was effected on December 2, 1985 when the remaining 6,050,000 of Series C preferred stock held by LIO was redeemed. In consideration of Gränges AB and The Swedish Lamco Syndicate, Gränges AB & Co, Handelsbolag (the Syndicate) agreeing not to require repayment to them of loans made to LAMCO and guaranteed by Gränges AB and the Syndicate which would render LAMCO unable to redeem such Series C preferred stock, LIO guaranteed repayment to Gränges AB and the Syndicate of up to an aggregate of $6,050,000 in reimbursement of advances which may be made by them in respect of guarantees given on loans to LAMCO. The redemption resulted in a recovery of $6,050,000 as the investment previously had been written down. As a result of its guarantee, LIO set aside in a special reserve the proceeds of the redemption so that they will be available should it be called to perform under its guarantee which shall terminate at the earlier of (i) December 31, 1991, or (ii) the date LAMCO shall have repaid the loans made to it or (iii) the date LIO shall have paid an aggregate of $6,050,000 under its guarantee. Therefore, the redemption had no effect on LIO's income except that the related capital gains tax amounting to $305,000 has been charged to income.

March 1986

Board of Directors

HANS WERTHÉN *Chairman*	*Chairman of AB Electrolux, and Chairman of Gränges AB, Stockholm, Sweden*	GÖSTA BYSTEDT	*Chief Executive Officer of AB Electrolux, and President of Gränges AB, Stockholm, Sweden*
BO ABRAHAMSSON *Vice Chairman*	*Vice Chairman of Gränges AB, Stockholm, Sweden*	BROCK F. CLARKE, Q.C.	*Partner of the law firm of Ogilvy, Renault, Montreal, Quebec, Canada*
		ALAN G. THOMPSON	*Chairman of Brink, Hudson & Lefever Ltd., Vancouver, British Columbia, Canada*

OFFICERS
ARNE DAHLSTRÖM
President

INGEMAR UUSSAAR
Secretary-Treasurer

HEAD OFFICE
Douglas Building, 72 University Avenue,
Charlottetown, Prince Edward Island, Canada C1A 4K9

FOREIGN OFFICE
S-105 45, Stockholm, Sweden

COUNSEL
Ogilvy, Renault
1981 McGill College Avenue, Montreal, Quebec,
Canada H3A 3C1

INDEPENDENT ACCOUNTANTS
Price Waterhouse
Box 1612, S-111 86 Stockholm, Sweden.

TRANSFER AGENTS AND REGISTRARS
The Royal Trust Company
Charlottetown, Prince Edward Island, Canada

The Royal Trust Company
Toronto, Ontario, Canada

The Trust Company of New Jersey
Jersey City, N.J., U.S.A.

Information With Respect to LIO Shares

MARKET FOR LIO'S COMMON SHARES

The common shares (without nominal or par value) of LIO are listed on The Toronto Stock Exchange and are traded on the over-the-counter market in New York. The common shares were quoted in the National Association of Securities Dealers Automated Quotation system (NASDAQ) until 1980 when LIO was notified by the NASD that the volume of trading in the common shares did not continue to meet the volume requirements for quotation in NASDAQ.

No dividends have been declared or paid on the common shares of LIO since 1978.

Under applicable United States-Canada tax treaties, dividends paid by LIO to United States holders of common shares are subject to withholding taxes at a rate of 15% except when the beneficial owner of the dividends is a company which owns 10% or more of the shares of LIO in which case the rate is 10%.

RANGE OF PRICES PER SHARE FOR BOARD LOTS ON THE TORONTO STOCK EXCHANGE

For quarter ending	Dividends	High Canadian dollars	Low Canadian dollars
March 31, 1984	nil	2.35	1.60
June 30, 1984	nil	2.00	1.50
September 30, 1984	nil	1.50	1.00
December 31, 1984	nil	1.75	1.30
March 31, 1985	nil	1.40	1.20
June 30, 1985	nil	3.30	3.00
September 30, 1985	nil	3.30	3.00
December 31, 1985	nil	3.00	3.00

LIO SHARES OUTSTANDING

	1985	1984
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders at December 31	3,326	3,535
located in: Liberia	2,372	2,520
U.S.A. and Canada	762	828
Other countries	192	187

Report of Independent Accountants

TO THE BOARD OF DIRECTORS OF LIBERIAN IRON ORE LIMITED

We have examined the accompanying balance sheets of Liberian Iron Ore Limited as of December 31, 1985 and 1984 and the related statements of profit (loss) and deficit and of changes in financial position for each of the three years in the period ended December 31, 1985. 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.

In our opinion, the financial statements examined by us present fairly the financial position of Liberian Iron Ore Limited as of December 31, 1985 and 1984, and the results of its operations and changes in its financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE
Stockholm, March 7, 1986

BALANCE SHEETS

(Expressed in United States dollars)

	December 31, 1985	1984
ASSETS		
CURRENT ASSETS		
Cash, including time deposits of $12,920,000 ($8,810,000 – 1984)	$13,046,541	$8,840,502
LESS – Time deposits pledged to secure LAMCO borrowings (Note 4)	(3,300,000)	(3,300,000)
	9,746,541	5,540,502
Marketable securities, at market (cost – $2,066,058) (Note 6)	2,062,012	
Other receivables	97,022	64,375
Total current assets	11,905,575	5,604,877
Investment in LAMCO (Notes 1, 3 and 4)	1	1
	$11,905,576	$5,604,878
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES		
Accounts payable	$ 122,541	$ 97,914
Unclaimed dividends	86,600	86,651
Canadian taxes payable (Note 5)	281,381	64,917
Total current liabilities	490,522	249,482
Reserve for guarantee (Note 4)	6,050,000	
CAPITAL		
Common shares without nominal or par value:		
Authorized – unlimited		
Issued – 3,955,025 shares	23,486,671	23,486,671
Deficit	(18,121,617)	(18,131,275)
Total capital	5,365,054	5,355,396
Commitments and contingencies (Notes 1 and 4)		
	$11,905,576	$5,604,878

On behalf of the Board

H. WERTHÉN B. F. CLARKE

Statements of Profit (Loss) and Deficit

(Expressed in United States dollars)	Year ended December 31, 1985	1984	1983
Income (Note 6)	$ 812,690	$ 886,420	$ 722,435
Expenses (Note 7)	278,005	229,659	317,529
Income before adjustments for items relating to investment in LAMCO	534,685	656,761	404,906
Proceeds of redemption of Series C preferred stock of LAMCO previously written off (Note 4)	6,050,000	550,000	
Profit before appropriation and income taxes	6,584,685	1,206,761	404,906
Appropriation to reserve for guarantee (Note 4)	6,050,000		
Income taxes (Note 5)	525,027	129,140	448,699
Net profit (loss)	9,658	1,077,621	(43,793)
Deficit at beginning of year	(18,131,275)	(19,208,896)	(19,165,103)
Deficit at end of year	($18,121,617)	($18,131,275)	($19,208,896)
Net profit (loss) per share	$ 0.002	$ 0.27	($ 0.01)

Statement of Changes in Financial Position

(Expressed in United States dollars)

	Year ended December 31, 1985	1984	1983
Working Capital Provided (Applied):			
Net profit (loss)	$ 9,658	$1,077,621	($ 43,793)
Charges not requiring outlay of working capital:			
Appropriation to reserve for guarantee (Note 4)	6,050,000		
Increase (decrease) in working capital	$6,059,658	$1,077,621	($ 43,793)
Analysis of Changes in Working Capital:			
INCREASE (DECREASE) IN CURRENT ASSETS:			
Cash	$4,206,039	$3,458,733	($2,382,410)
Marketable securities	2,062,012		
Short-term note receivable (Note 2)		(2,600,000)	2,600,000
Canadian taxes receivable			(65,018)
Other receivables	32,647	(112,984)	128,820
	6,300,698	745,749	281,392
(INCREASE) DECREASE IN CURRENT LIABILITIES			
Accounts payable	(24,627)	34,226	36,449
Unclaimed dividends	51	22	907
Canadian taxes payable	(216,464)	297,624	(362,541)
	(241,040)	331,872	(325,185)
Increase (decrease) in working capital	$6,059,658	$1,077,621	($ 43,793)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1985

(Expressed in United States dollars unless otherwise specified)

NOTE 1

WRITE-DOWN OF INVESTMENT IN LAMCO

Liberian Iron Ore Limited (LIO) owns 50% of the common stock of The Liberian American-Swedish Minerals Company (LAMCO) and certain other securities of LAMCO (see Note 3 for information regarding components of investments). The Government of Liberia owns the other 50% of the LAMCO common stock.

Effective January 1, 1982, the Board of Directors of LIO decided to write down to $1 its investment in LAMCO as shown below. This decision was taken at the meeting of the Board of Directors of LIO in January 1983 after reviewing the unfavorable (i) liquidity of LAMCO, (ii) projections for funds generation from the mining of the remaining high-grade ore reserves of LAMCO in Liberia and (iii) priority distribution of LAMCO's assets.

Write-down of investment in LAMCO at December 31, 1982	$35,967,000
Write-down of organization and preoperating expenses associated with the LAMCO Joint Venture	153,000
Reversal of previously provided deferred Liberian taxes on future preferred stock dividends	(638,000)
	$35,482,000

The following is a summary of LAMCO financial data (in thousands):

FINANCIAL POSITION

	December 31, 1985	1984
Current assets:		
Inventories of ore	$14,936	$22,247
Other	52,330	43,337
	67,266	65,584
Current liabilities:		
Current maturities:		
Guaranteed short-term debt	38,250	19,750
Preferred stock		25,714
Other	6,101	7,753
	44,351	53,217
Working capital	22,915	12,367
Noncurrent assets	37,062	38,157
Noncurrent liabilities	(34,300)	(32,010)
Net assets	$25,677	$18,514

STATEMENT OF PROFIT (LOSS)

	For year ended December 31, 1985	1984	1983
Sales	$96,529	$106,971	$87,752
Profit (loss) from operations	9,929	5,055	(141)
Net profit (loss)	7,163	51	(9,822)

The report of the independent accountants on LAMCO for the years ended December 31, 1985, 1984 and 1983 were qualifed as to the ability of LAMCO to continue as a going concern in view of its current financial condition.

To the extent that LIO recovers a portion, if any, of its original investment in LAMCO, such gain will be recognized by LIO in the period during which LIO receives unencumbered cash distributions from LAMCO. Note 4 refers to the Series C preferred stock redemption by LAMCO in 1985, in respect of which the gain of $6,050,000 was offset by a reserve in the same amount.

NOTE 2

RELATED PARTY TRANSACTIONS

On December 30, 1983, LIO granted a short-term loan of $2,600,000 to a wholly owned Canadian subsidiary of AB Electrolux, the indirect owner of 74.8% of LIO's stock. LIO received interest accruing at 10.5% per annum, a rate in excess of rates available to LIO for similar short-term investments. The loan and accrued interest were paid in full on January 13, 1984.

NOTE 3

INVESTMENT IN LAMCO

LAMCO, a Liberian corporation, participates with Liberian Mining Corporation (LIMINCO), which is wholly owned by the Government of Liberia (the Government), in developing and mining iron ore deposits in Liberia under a concession granted by the Government which expires on November 18, 2023. LIMINCO acquired the 25% interest in the LAMCO Joint Venture previously held by Liberia Bethlehem Iron Mines Company, a wholly owned subsidiary of Bethlehem Steel Coporation, effective January 1, 1984.

The LAMCO Joint Venture Agreement between LAMCO and LIMINCO provides that LAMCO has a 75% and LIMINCO a 25% undivided interest in the concession and in the facilities established to develop the concession. The parties generally share the cost of the Joint Venture's production in a 75%–25% ratio.

The Class A common stock is held by the Government and the Class B common stock by LIO. Under the Concession Agreement, as amended in 1974, LAMCO is required to pay a royalty to the Government in the amount of 4% of its net sales of iron ore during each quarter. The Board of Directors of LAMCO has not declared any dividends on any preferred or common stock since the third quarter of 1977. As of December 31, 1985, the unpaid dividends payable to the Class B common stockholder equivalent to the royalty accrued to the Government aggregated $33,753,603. Under the Concession Agreement, these dividends must be satisfied before dividends in equal amounts to the Class A and Class B common stockholders can be resumed.

LIO's investment in the LAMCO Series C preferred stock was subject to the following provisions:

(1) LIO was entitled to cumulative annual cash dividends of $6.25 per share.

(2) The Series C preferred stock was to be redeemed pursuant to a schedule which provided for the redemption, at $100 per share plus accrued dividends, of 5,500 shares annually in each of the years 1978 through 1984 and of the remaining 60,500 shares in 1985. In addition, LAMCO had the option to redeem shares at $100 per share plus accrued dividends at any time after all the bonds have been retired.

(3) The Series B preferred stock had priority over the Series C preferred stock. The Series C preferred stock had priority over the Class A and Class B common stock, with respect to dividends and the distribution of assets in the event of liquidation.

NOTE 4

LAMCO PREFERRED STOCK REDEMPTIONS

The Board of Directors of LAMCO determined during 1982 to authorize the redemption of all shares of Series A, B and C preferred stock, the redemption dates of which had previously been waived by the preferred stockholders. Such redemption took place on January 7, 1983 and aggregated $17,127,000 (of which $2,750,000 was applicable to the Series C preferred stock owned by LIO). Simultaneously with and contingent upon such redemption, the holders of such shares renounced the payment of accrued but unpaid dividends of $15,408,000 (of which $3,183,000 related to Series C preferred stock owned by LIO) through January 7, 1983 on all shares of Series A, B and C preferred stock. LAMCO effected such redemptions through additional long-term borrowings guaranteed or assisted by the holders of the Series A, B and C preferred stock in the proportion of the redemption proceeds received by them. In this connection LIO deposited $2,750,000 with the lending bank and pledged such amount as security for a loan in like amount by said bank to LAMCO in order to provide the funds necessary for the aforesaid redemption. Because of LAMCO's financial condition, LIO has reflected the pledge as a reduction of its cash.

In June 1983 the Board of Directors of LAMCO determined to authorize the redemption scheduled for that month. Accordingly, on June 15, 1983 LAMCO redeemed preferred shares aggregating $2,550,000 (of which $550,000 was applicable to Series C preferred stock owned by LIO) and the preferred stockholders renounced the payment of accrued but unpaid dividends of $845,250 ($196,000 of which was due to LIO). Such redemption was effected in the same manner as was followed for the January 7, 1983 redemption described above. A further $550,000 was pledged with the lending bank to provide funds for this redemption of Series C preferred stock.

LIO and the other preferred stockholders renounced the dividends accruing between June 15, 1983 and July 31, 1984, amounting to $2,022,000 of which $472,000 was owed to LIO, simultaneously with and contingent upon LAMCO redeeming preferred stock, which redemption was effected on July 31, 1984 when $550,000 of Series C preferred stock held by LIO was redeemed out of available funds of LAMCO. As a result, LIO did not have to guarantee any borrowings by LAMCO as was necessary for the two prior redemptions, and therefore this redemption has been considered as a partial recovery of the previous write-down of the LIO investment and accordingly a gain in the amount of $550,000 has been recorded in income.

Due to the differences between the book and tax carrying value of the Series C preferred stock owned by LIO and the strengthening of the United States dollar (the currency in which LAMCO and LIO maintain their financial statements) with respect to the Canadian dollar (the currency in which LIO prepares its tax returns), LIO realized a taxable gain on the redemption of the Series C preferred stock.

As a result of representations made on behalf of LIO, a remission order under the Financial Administration Act of Canada has been issued and was published on November 14, 1984, to the effect that the gain on the disposition, whether before or after that date, of Series C preferred stock of LAMCO owned by LIO will be treated in the same way as if the Canada-Liberia Income Tax Convention (1976) had been ratified. This resulted in a reduction of $190,500 in the tax payable and provided for in respect of the dispositions made in 1983, which reduction was reflected in the provision for Canadian income taxes for 1984.

LIO and the other preferred stockholders renounced the dividends accruing between July 31, 1984 and December 2, 1985, amounting to $2,179,000 of which $512,569 was owed to LIO, simultaneously with and contingent upon LAMCO redeeming preferred stock, which redemption was effected on December 2, 1985 when the remaining $6,050,000 of Series C preferred stock held by LIO was redeemed. In consideration of Gränges AB and the Swedish Lamco Syndicate Lamco Syndicate, Gränges AB & Co, Handelsbolag (the Syndicate) agreeing not to require repayment of loans made to LAMCO and guaranteed by Gränges AB and the Syndicate which would render LAMCO unable to redeem such Series C preferred stock, LIO guaranteed repayment to Gränges AB and the Syndicate of up to an aggregate of $6,050,000 in reimbursement of advances which may be made by them in respect of guarantees given on loans to LAMCO. The redemption resulted in a recovery of $6,050,000 as the investment previously had been written down. As a result of its guarantee, LIO set aside in a special reserve the proceeds of the redemption so that they will be available should it be called to perform under its guarantee which shall terminate at the earlier of (i) December 31, 1991, or (ii) the date LAMCO shall have repaid the loans made to it or (iii) the date LIO shall have paid an aggregate of $6,050,000 under its guarantee. Therefore, the redemption had no effect on LIO's income except that the capital gains tax amounting to $305,000 has been charged to income.

NOTE 5

TAXATION

LIO was incorporated under the Companies Act of Canada and was continued on December 1, 1980 under the Canada Business Corporations Act. In accordance with Canadian tax regulations, all business income of LAMCO earned in Liberia and paid as a dividend to LIO is exempt from Canadian tax.

LIO is subject to Canadian and provincial corporate taxes on its taxable income derived from interest income less normal business expenses.

LIO's income for Canadian tax purposes differs from its net profit for financial statement purposes as indicated below. LIO recorded Canadian tax on capital gains of $273,000 in 1983 relating to the redemption of its Series C preferred stock investment in LAMCO. However, as described in Note 4, a remission order was issued which resulted in a reduction of $190,500 in the tax payable for 1983, which has been reflected in the provision for Canadian income taxes for 1984. The following is the determination of LIO's taxable income and income taxes (in thousands):

	1985	1984	1983
Profit before appropriation and income taxes	$ 6,585	$ 1,207	$ 405
Items not included in determination of taxable Canadian income:			
Dividends	(63)		
Redemption by LAMCO of preferred stock previously written off	(6,050)	(550)	
Other	(4)	(9)	(31)
Taxable income (before capital gains on LAMCO redemption)	$ 468	$ 648	$ 374
Taxes (46.9% in 1985, 46% in 1984 and 47% 1983)	$ 220	$ 298	$ 176
Tax on capital gains on redemption by LAMCO of preferred stock	305	22	273
Reversal of previously provided tax on capital gains on redemption by LAMCO of preferred stock		(191)	
Income taxes provided	$ 525	$ 129	$ 449

NOTE 6

INCOME

The Board of Directors of LIO authorized on November 29, 1985, an increase from $2,000,000 Canadian to $10,000,000 Canadian of the amount of which can be invested by LIO in a portfolio of high quality Canadian preferred shares listed on Canadian stock exchanges. The market value of the portfolio amounted to $2,062,012 (cost – $2,066,058) at December 31, 1985.

LIO's income consists of following:

	1985	1984
Interest earned	$743,949	$886,420
Dividends	62,439	
Fee for guarantee issued	6,302	
	$812,690	$886,420

NOTE 7

REMUNERATION OF DIRECTORS AND OFFICERS

There were five directors and seven officers of LIO at December 31, 1985. Two of the officers were also directors. Aggregate remuneration of directors included in other expenses was $40,000, $60,000 and $69,000 in 1985, 1984 and 1983, respectively.

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

LIBERIAN IRON ORE LIMITED

Prior to 1982, LIO accounted for the 50% investment in LAMCO under the equity method and, therefore, LIO's results were almost entirely dependent upon the results of operations of LAMCO. Effective January 1, 1982, the Board of Directors of LIO wrote down to $1 the investment in LAMCO and discontinued equity accounting for the investment. This decision was taken after reviewing the unfavorable (i) liquidity of LAMCO, (ii) projections for funds generation from the mining of the remaining high-grade ore reserves of LAMCO in Liberia and (iii) priority distribution of LAMCO's assets. Accordingly, since this write-down, LIO's results have been derived primarily from its management of its cash balances and costs of administration.

After writing down the investment in LAMCO, LIO's only other assets were cash and bank certificates of deposit and, as from July 17, 1985, marketable securities (preferred shares) of Canadian issuers. During 1985 LIO earned interest and received dividends on these investments at a combined rate of return of 6.9% (10.5% – 1984) on an average investment of $11,975,000 ($8,411,000 – 1984). LIO had a net profit of $9,658 or $0.002 per share in 1985 compared with a net profit of $1,077,621 or $0.27 per share in 1984.

To the extent that LIO recovers a portion, if any, of its original investment in LAMCO, such gain will be recognized by LIO in the period during which LIO receives unencumbered cash distributions from LAMCO. Note 4 refers to the Series C preferred stock redemption by LAMCO in 1985 in respect of which the gain of $6,050,000 was offset by a reserve in the same amount.

Five-year Summary Statement of Profit (Loss)

(Expressed in thousand United States dollars, except for per share amounts)	Year ended December 31, 1985	1984	1983	1982	1981
Income	$ 813	$ 887	$ 723	$ 575	$ 727
Expenses	278	230	318	349	334
Income before adjustments for items relating to investment in LAMCO	535	657	405	226	393
Write-down of investment in LAMCO				(35,482)	
Proceeds of redemption of Series C preferred stock of LAMCO previously written off	6,050	550			
Change in equity in the undistributed earnings of LAMCO attributable to common stock					(8,299)
Undeclared and unpaid current dividends on Series C preferred stock					619
Profit (loss) before appropriation and income taxes	6,585	1,207	405	(35,256)	(7,287)
Appropriation to reserve for guarantee	6,050				
Canadian income taxes	525	129	449	101	350
Net profit (loss)	$ 10	$1,078	($ 44)	($35,357)	($ 7,637)
Net profit (loss) per share*	$0.002	$ 0.27	($0.01)	($8.94)	($1.93)

*Based on 3,955,025 average shares outstanding

Five-year Statement of (Deficit) Retained Earnings

(Expressed in thousand United States dollars)	Year ended December 31, 1985	1984	1983	1982	1981
Net profit (loss)	$ 10	$ 1,078	($ 44)	($35,357)	($ 7,637)
(Deficit) retained earnings at beginning of year	(18,131)	(19,209)	(19,165)	16,192	23,829
(Deficit) retained earnings at end of the year	($18,121)	($18,131)	($19,209)	($19,165)	$16,192

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