

LIBERIAN IRON ORE ^c LIMITED

Annual
Report **1988**

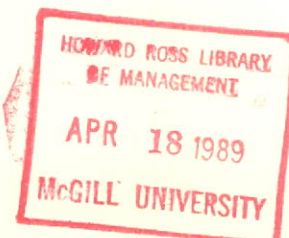
LIBERIAN IRON ORE LIMITED

Annual Report 1988

THE ANNUAL MEETING OF LIBERIAN IRON ORE LIMITED SHAREHOLDERS WILL BE HELD ON MAY 19, 1989, AT 11:00 A.M. AT THE OFFICE OF OGILVY RENAULT, 1981 MCGILL COLLEGE AVENUE, SUITE 1200, MONTREAL, QUEBEC, CANADA.

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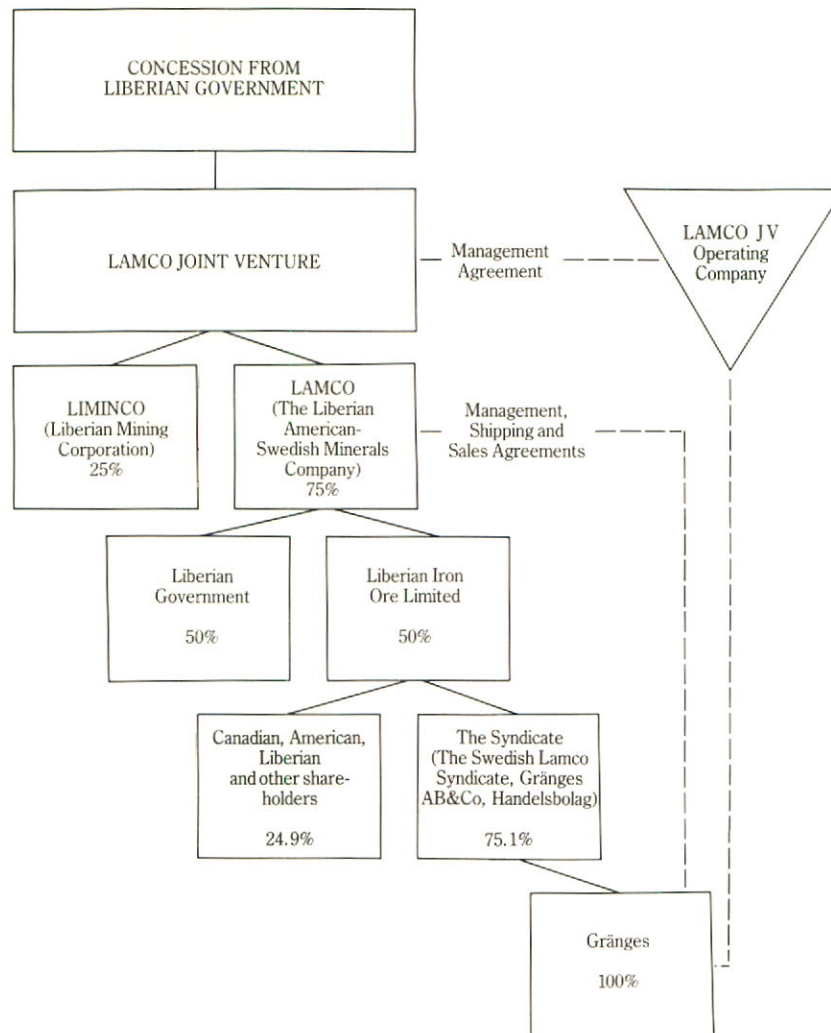


LIBERIAN IRON ORE LIMITED (LIO)

is a partner with the Government of Liberia (the Government) in The Liberian American-Swedish Minerals Company (LAMCO). LAMCO, in turn, is a participant (75%) with Liberian Mining Corporation (LIMINCO), a wholly owned company of the Government (25%), in the LAMCO Joint Venture iron ore project. This mining enterprise represents a basic in-

vestment 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-10545 Stockholm, Sweden

LAMCO JV OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICER

BRIAN MAHER - *President and General Manager*

HEAD OFFICE

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. To the extent that LIO recovers a portion, if any, of its original investment in LAMCO or receives a dividend, such gain or dividend will be recognized by LIO in the period during which LIO receives unencumbered cash distributions from LAMCO.

After writing down the investment in LAMCO, LIO's only other assets are cash and bank certificates of deposit and marketable securities (preferred shares) of Canadian issuers. During 1988 LIO earned interest and received dividends on these investments at a combined rate of return of 7.9% (7.4% - 1987) on an average investment of \$29,468,079 (\$24,693,301 - 1987). In addition, LIO has received fees for participation in guarantees for LAMCO through Gränges AB and the Syndicate. LIO had a net profit of \$10,301,516 or \$2.60 per share in 1988 compared with a net profit of \$839,804 or \$0.21 per share in 1987.

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. As of December 31, 1988, the unpaid dividends payable to LIO equivalent to the royalty accrued to the Government aggregated \$29,666,031 (\$27,218,013 - 1987). Under the Concession Agreement, subject to certain conditions, these dividends must be satisfied before dividends in equal amounts can be paid to the Government and LIO. On April 15, 1987, LAMCO paid a dividend of \$7,200,000 to LIO in respect of the then unpaid dividends. In connection with the payment of the \$7,200,000 dividend, it was necessary for LIO to pledge to the bank lending the funds an amount equal to the dividend, so that LAMCO could obtain a loan of the funds required to pay such dividend. The amount of the dividend was taken into income by LIO on receipt in 1987, but an amount equal to the \$7,200,000 pledged was deducted from LIO's income, so that the net effect of the dividend and pledge was that there was no change in LIO's net income. Because of LAMCO's financial condition, LIO reflected the pledge as a reduction of its cash in 1987.

16.77% of the amounts borrowed by LAMCO to finance the redemption of its preferred stock in 1983 were secured by the pledge by LIO of term deposits and the amount of

such pledge was deducted from LIO's current assets on its Balance Sheet. 23.53% of other operating indebtedness of LAMCO was secured by a guarantee of LIO in respect of which LIO set aside a special reserve equal to the amount guaranteed.

Due to the repayments made by LAMCO during the year ended December 31, 1988 of such loan of \$7,200,000 and \$8,677,000 of such loans to finance the redemption of its preferred stock (of which 16.77% or \$1,455,300 was secured by the pledge of deposits by LIO), the deposits so pledged by LIO have been reduced by \$8,655,300. As a result of the repayments made by LAMCO noted above, the time deposits pledged by LIO to secure loans from the bank to LAMCO have been reduced in the amounts of \$7,200,000 and \$1,455,300 respectively and such amounts were taken into income by LIO in 1988. At December 31, 1988 no time deposits remained pledged and such special reserve amounted to \$4,647,175. The special reserve has been unchanged since December 31, 1986.

LAMCO repaid the balance of \$19,750,000 of its other operating indebtedness on January 9, 1989. As a result of the repayment, the \$4,647,175 reserve for guarantee maintained by LIO in respect of the guarantee given by it has been released and \$4,647,175 has been taken into income by LIO for the first quarter of 1989.

Operations based on the ore bodies currently being mined by the LAMCO Joint Venture are planned to continue until late 1989 or early 1990. There are other proven iron ore reserves in the Western Area of the LAMCO Joint Venture's concession in Liberia which are of a lower grade than the ore in the main Nimba mine and which could be developed with additional capital investments. The LAMCO Joint Venture is currently studying alternative development projects as well as the possible utilization of its assets in conjunction with those of other parties.

One such project, providing for co-operation between the LAMCO Joint Venture (Liberia) and Miferqui-Nimba (Guinea), was approved in principle by the LAMCO Joint Venture participants. The principal parties which would be involved in such project have executed an agreement establishing a Joint Project Implementation Group to actively develop a feasibility and other studies and perform other preparatory work relating to a joint project.

This project, as well as any other project, would require new long-term financing. The possibility of LAMCO obtaining such financing is dependent upon a feasibility study that would indicate a potentially viable project and upon LAMCO obtaining long-term commitments from purchasers in respect of deliveries of iron ore from the project.

March 5, 1989

BOARD OF DIRECTORS

HANS WERTHÉN
Chairman

*Chairman of AB Electrolux and
Chairman of Gränges AB,
Stockholm, Sweden*

GÖSTA BYSTEDT

*Vice Chairman of AB Electrolux and
President of Gränges AB,
Stockholm, Sweden*

BO ABRAHAMSSON
Vice Chairman

*Vice Chairman of Gränges AB,
London, England*

BROCK F. CLARKE, Q.C.

*Partner of the law firm of Ogilvy
Renault, Montreal, Quebec, Canada*

ALAN G. THOMPSON

*President of AGT Financial
Corporation, Vancouver,
British Columbia, Canada*

OFFICERS

ARNE DAHLSTRÖM
President

STIG PREMFORSSON
Vice President

INGEMAR UUSSAAR
Secretary-Treasurer

HEAD OFFICE

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

FOREIGN OFFICE

S-10545, Stockholm, Sweden

COUNSEL

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

INDEPENDENT ACCOUNTANTS

Price Waterhouse
Box 1702, S-11187 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, 1987	nil	5.00	4.25
June 30, 1987	nil	6.25	4.75
September 30, 1987	nil	6.25	5.25
December 31, 1987	nil	5.63	4.00
March 31, 1988	nil	4.10	3.50
June 30, 1988	nil	6.25	3.75
September 30, 1988	nil	6.25	5.50
December 31, 1988	nil	6.50	6.13

LIO SHARES OUTSTANDING

	1988	1987
Shares outstanding during the year _____	3,955,025	3,955,025
Number of shareholders at December 31 _____	2,929	2,962
located in: Liberia _____	2,370	2,370
U. S. A. and Canada _____	452	481
Other countries _____	107	111

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, 1988 and 1987 and the related statements of profit and retained earnings (deficit) and of cash flows for the years then ended. Our examinations were made in accordance with generally accepted auditing standards in Canada 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, 1988 and 1987, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE
Stockholm, March 5, 1989

BALANCE SHEETS

(Expressed in United States dollars)

December 31
1988 1987

ASSETS

CURRENT ASSETS

Cash including time deposits of \$21,005,000 (\$27,725,300 in 1987) _____	\$21,208,839	\$27,858,289
LESS – Time deposits pledged to secure LAMCO borrowings (Notes 1 and 3) _____		(8,655,300)
	<u>21,208,839</u>	<u>19,202,989</u>
Marketable securities, at market (Note 5) _____	8,895,016	974,014
Other receivables _____	177,341	113,574
Total current assets _____	<u>30,281,196</u>	<u>20,290,577</u>
Investment in LAMCO (Notes 1, 2 and 3) _____	1	1
	<u>\$30,281,197</u>	<u>\$20,290,578</u>

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Accounts payable _____	\$ 55,998	\$ 56,761
Unclaimed dividends _____	86,145	86,145
Canadian taxes payable (Note 4) _____		310,134
Total current liabilities _____	<u>142,143</u>	<u>453,040</u>
RESERVE FOR GUARANTEE (NOTE 3) _____	4,647,175	4,647,175

CAPITAL

Common shares without nominal or par value:		
Authorized – unlimited		
Issued – 3,955,025 shares _____	23,486,671	23,486,671
Retained earnings (deficit) _____	2,005,208	(8,296,308)
Total capital _____	<u>25,491,879</u>	<u>15,190,363</u>
Commitments and contingencies (Notes 1 and 3)		
	<u>\$30,281,197</u>	<u>\$20,290,578</u>

The accompanying notes are an integral part of these Financial Statements.

On behalf of the Board

H. WERTHÉN

B. F. CLARKE

STATEMENTS OF PROFIT AND RETAINED EARNINGS (DEFICIT)

(Expressed in United States dollars)

Year ended December 31
1988 1987

Income (Note 6) _____	\$ 2,409,237	\$ 9,112,265
Expenses _____	(452,789)	(362,150)
Income before adjustments for the following items _____	1,956,448	8,750,115
Exchange gains less exchange losses _____	524,878	192,732
Realized capital (losses) less capital gains in respect of marketable securities sold or called for redemption _____	(106,166)	(129,304)
Write-down of investment in marketable securities to market _____	(132,200)	(92,762)
Recovery of time deposits pledged to secure LAMCO borrowings (Note 3) _____	8,655,300	
Increase of time deposits pledged to secure LAMCO borrowings (Note 3) _____		(7,200,000)
Profit before income taxes _____	10,898,260	1,520,781
Income taxes (Note 4) _____	(596,744)	(680,977)
Net profit _____	10,301,516	839,804
Deficit at beginning of year _____	(8,296,308)	(9,136,112)
Retained earnings (deficit) at end of year _____	\$ 2,005,208	(\$ 8,296,308)
Net profit per share _____	\$ 2.60	\$ 0.21

The accompanying notes are an integral part of these Financial Statements.

STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

Year ended December 31
1988 1987

Cash flow from operating activities:

Net profit	\$10,301,516	\$ 839,804
Non cash expenses, revenues, losses and gains included in net profit:		
Net (increase) in receivables	(63,767)	(12,999)
Net (decrease) increase in payables	(310,897)	251,200
Exchange gains less exchange losses	(524,878)	(192,732)
Write-down of investment in marketable securities to market	132,200	92,762
Realized capital losses less capital gains in respect of marketable securities sold or called for redemption	106,166	129,304
Increase (recovery) of time deposits pledged to secure LAMCO borrowings	(8,655,300)	7,200,000
Net cash flow from operating activities	985,040	8,307,339
Cash flow from investing activities:		
Purchases of marketable securities	(9,133,017)	(166,479)
Proceeds from marketable securities sold or called for redemption	1,495,231	4,190,671
Net cash (used) provided by investing activities	(7,637,786)	4,024,192
Effect of exchange rate changes on cash	3,296	15,348
Net (decrease) increase in cash	(6,649,450)	12,346,879
Cash at beginning of year	27,858,289	15,511,410
Cash at end of year*	\$21,208,839	\$27,858,289*

SUPPLEMENTAL INFORMATION ON STATEMENTS OF CASH FLOWS

*Of the \$27,858,289 cash held at December 31, 1987, \$8,655,300 was pledged to secure LAMCO borrowings. At December 31, 1988 no such time deposits remained pledged. (Notes 1 and 3).

The accompanying notes are an integral part of these Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1988

(Expressed in United States dollars unless otherwise specified)

NOTE 1

INVESTMENT IN LAMCO

Liberian Iron Ore Limited (LIO) owns 50% of the common stock of The Liberian American-Swedish Minerals Company (LAMCO) and a non-interest bearing capital obligation receivable only upon liquidation of LAMCO. The Government of Liberia (the Government) owns the other 50% of the LAMCO common stock.

LAMCO, a Liberian corporation, participates with Liberian Mining Corporation (LIMINCO), which is wholly owned by the Government, in developing and mining iron ore deposits in Liberia under a concession granted by the Government which expires on November 18, 2023.

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 LAMCO 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 profit of LAMCO is distributed first to LIO, as holder of the Class B common stock, as a dividend in an amount equivalent to the royalty accrued to the Government. Subject to any payments required to be made to the Class A common stockholder if a debt equity ratio of 3-1/2 to 1 (as defined) is exceeded and after adjustment of the reserve for concession development and other corporate purposes pursuant to a resolution by LAMCO's Board of Directors, any remaining amount will be distributed equally to the Government as holder of the Class A common stock and to LIO. On April 15, 1987 LAMCO paid a dividend of \$7,200,000 to LIO in respect of the then unpaid dividends. As of December 31, 1988, the unpaid dividends payable to LIO equivalent to the royalty accrued to the Government aggregated \$29,666,031 (\$27,218,013 - 1987). Under the Concession Agreement, these unpaid dividends must be satisfied before dividends in equal amounts to the Class A and Class B common stockholders can be resumed.

In connection with the payment of the \$7,200,000 dividend, it was necessary for LIO to pledge to the bank lending the funds an amount equal to the dividend, so that LAMCO could obtain a loan of the funds required to pay such dividend. The amount of the dividend was taken into income by LIO on receipt in 1987, but an amount equal to the \$7,200,000 pledged was deducted from LIO's income, so that the net effect of the dividend and pledge was that there was no change in LIO's net income. Because of LAMCO's financial condition, LIO reflected the pledge as a reduction of its cash in 1987. As a result of the repayment by LAMCO of such loan

during 1988, the time deposit pledged by LIO to secure the loan was reduced by the same amount and such amount of \$7,200,000 was taken into income by LIO in 1988.

NOTE 2

WRITE-DOWN OF INVESTMENT IN LAMCO

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 highgrade ore reserves of LAMCO in Liberia and (iii) priority distribution of LAMCO's assets.

Components of investment in LAMCO at December 31, 1981:

Series C preferred stock 6-1/4%, at cost	\$ 9,900,000
Undeclared and unpaid cumulative dividends on Series C preferred stock	2,552,347
Class B common stock	1,000,000
Class B common stock adjusted for changes in equity in undistributed earnings of LAMCO attributable to common stock	9,657,820
Capital obligation, non-interest bearing, at cost, receivable only upon liquidation of LAMCO	12,855,662
Organization and pre-operating expenses less accumulated amortization	153,970
Deferred Liberian taxes	(638,086)
Total investment at December 31, 1981	<u>35,481,713</u>
Write-down January 1, 1982	<u>(35,481,712)</u>
Investment in LAMCO as of January 1, 1982	<u>\$ 1</u>

Since the write-down of the investment in LAMCO, LIO has recovered through December 31, 1985 the aggregate principal amount of \$9,900,000 in respect of the redemptions of Series C preferred stock. Simultaneously with the redemptions, the accrued but unpaid dividends on such preferred stock to the redemption dates were renounced, including the amount of \$2,552,347 accrued at December 31, 1981 as shown above.

In addition, LIO has received through December 31, 1988 dividends on the Class B common stock aggregating \$12,200,000 including the adjustment at December 31, 1981 for changes in equity in the undistributed earnings of LAMCO attributable to the Class B common stock of \$9,657,820 as shown above.

Summary of amounts collected:

Series C preferred stock 6-1/4% redeemed, at cost	\$ 9,900,000
Dividends on Class B common stock	12,200,000
Total	<u>\$22,100,000</u>
Comprised of:	
Unencumbered at December 31, 1988	\$17,452,825
Encumbered at December 31, 1988:	
Reserve for guarantee issued	4,647,175
Total	<u>\$22,100,000</u>

The following is a summary of LAMCO financial data:

STATEMENTS OF PROFIT (LOSS)

	For year ended December 31	
	1988	1987
Sales	\$61,200,449	\$60,464,804
Profit from operations	\$ 6,678,301	\$ 565,609
Net profit (loss)	\$ 5,476,039	(\$ 2,125,762)
Shipments in metric tons	4,921,150	4,692,629

FINANCIAL POSITION

	December 31	
	1988	1987
Current assets:		
Inventories of ore	\$ 9,925,565	\$21,492,537
Other	42,053,098	34,242,413
	<u>51,978,663</u>	<u>55,734,950</u>
Current liabilities:		
Guaranteed short-term debt	19,750,000	26,950,000
Other	18,219,103	9,230,716
	<u>37,969,103</u>	<u>36,180,716</u>
Working capital	14,009,560	19,554,234
Non-current assets	9,969,933	19,889,470
Non-current liabilities		(20,940,250)
Net assets	<u>\$23,979,493</u>	<u>\$18,503,454</u>

The reports of the independent accountants on LAMCO for the years ended December 31, 1987 and December 31, 1988 were qualified as to the ability of LAMCO to continue on a longer term basis.

To the extent that LIO recovers a portion, if any, of its original investment in LAMCO or receives a dividend, such gain or dividend will be recognized by LIO in the period during which LIO receives unencumbered cash distributions from LAMCO. Note 1 refers to the dividend paid by LAMCO to LIO in April 1987, in respect of which the income of \$7,200,000 was offset by a time deposit pledged in the same amount. This time deposit was released and the \$7,200,000 was taken into income in 1988.

NOTE 3

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 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 was considered as a partial recovery of the previous write-down of the LIO investment and accordingly a gain in the amount of \$550,000 was 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 then 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 was 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 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 \$305,375 was charged to income.

16.77% of the amounts borrowed by LAMCO to finance the redemption of its preferred stock in 1983 were secured by the pledge by LIO of term deposits and the amount of such pledge was deducted from LIO's current assets on its Balance Sheet. As reported in 1987 LIO pledged a further amount of \$7,200,000 to enable LAMCO to obtain a loan of the funds required to pay to LIO on April 15, 1987 a dividend in a like amount. 23.53% of other operating indebtedness of LAMCO was secured by a guarantee of LIO in respect of which LIO set aside a special reserve equal to the amount guaranteed. Due to the repayments made by LAMCO during the year ended December 31, 1988 of such loan of \$7,200,000 and \$8,677,000 of such loans to finance the redemption of its preferred stock (of which 16.77% or \$1,455,300 was secured by the pledge of deposits by LIO), the deposits so pledged by LIO have been reduced by \$8,655,300. As a result of the repayments made by LAMCO noted above, the time deposits pledged by LIO to secure loans from the bank to LAMCO have been reduced in the

amounts of \$7,200,000 and \$1,455,300 respectively and such amounts were taken into income by LIO during 1988. At December 31, 1988 no time deposits remained pledged and such special reserve amounted to \$4,647,175. The special reserve has been unchanged since December 31, 1986.

LAMCO repaid the balance of \$19,750,000 of its other operating indebtedness on January 9, 1989. As a result of the repayment, the \$4,647,175 reserve for guarantee maintained by LIO in respect of the guarantee given by it has been released and \$4,647,175 has been taken into income by LIO for the first quarter of 1989.

NOTE 4

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. The following is the determination of LIO's taxable income and income taxes:

	1988	1987
Profit before income taxes	\$10,898,260	\$ 1,520,781
Items not included in determination of taxable Canadian income:		
Dividends	(579,425)	(7,432,782)
Increase of time deposits pledged to secure LAMCO borrowings		7,200,000
Recovery of time deposits pledged to secure LAMCO borrowings	(8,655,300)	
Realized capital losses less capital gains in respect of marketable securities sold or called for redemption	106,166	129,304
Write-down of investment in marketable securities to market	132,200	92,762
Unrealized exchange gains in respect of marketable securities and cash	(524,878)	(68,921)
Realized exchange gains in respect of marketable securities sold or called for redemption		(123,811)
Other	(3,432)	(6,522)
Taxable income	<u>\$ 1,373,591</u>	<u>\$1,310,811</u>

Taxes (47.4% in 1988; 51.6% in 1987) _____	\$ 651,082	\$ 676,378
Tax (refund) expense in respect of prior years _____	(54,338)	4,599
Income taxes provided _____	\$ <u>596,744</u>	\$ <u>680,977</u>

NOTE 5

MARKETABLE SECURITIES

The market value of the portfolio of high quality Canadian preferred shares listed on Canadian stock exchanges amounted to \$8,895,016 (cost – \$9,221,775) at December 31, 1988 and \$974,014 (cost – \$1,151,664) at December 31, 1987 and are valued at lower of cost or market. Current receivables and current liabilities have been translated at

year-end exchange rates. Any resulting unrealized foreign exchange losses or gains have been recorded in income.

NOTE 6

INCOME

LIO's income consists of the following:

	1988	1987
Dividend from LAMCO _____		\$7,200,000
Dividends on marketable securities _____	\$ 579,425	232,782
Interest earned _____	1,758,942	1,605,338
Fee for guarantee issued _____	70,870	74,145
	<u>\$2,409,237</u>	<u>\$9,112,265</u>

FIVE-YEAR SUMMARY STATEMENT OF PROFIT

(Expressed in thousand United States dollars,
except for per share amounts)

	Year ended December 31,				
	1988	1987	1986**	1985	1984
Income _____	\$ 2,409	\$9,112	\$6,416	\$ 813	\$ 887
Expenses _____	(453)	(362)	(331)	(278)	(230)
Income before adjustments for the following items _____	1,956	8,750	6,085	535	657
Exchange gains _____	525	193	91		
Realized capital (losses) less capital gains in respect of marketable securities sold or called for redemption _____	(106)	(129)	(14)		
Write-down of investment in marketable securities to market _____	(132)	(93)	(76)		
Proceeds of redemption of Series C preferred stock of LAMCO previously written off _____				6,050	550
Recovery (increase) of time deposits pledged to secure LAMCO borrowings _____	8,655	(7,200)	1,845		
Reduction of reserve for guarantee issued _____			1,403		
Profit before appropriation and income taxes _____	10,898	1,521	9,334	6,585	1,207
Appropriation to reserve for guarantee _____				6,050	
Canadian income taxes _____	(597)	(681)	(348)	(525)	(129)
Net profit _____	<u>\$10,301</u>	<u>\$ 840</u>	<u>\$8,986</u>	<u>\$ 10</u>	<u>\$1,078</u>
Net profit per share* _____	<u>\$ 2.60</u>	<u>\$ 0.21</u>	<u>\$ 2.27</u>	<u>\$0.002</u>	<u>\$ 0.27</u>

*Based on 3,955,025 shares outstanding

**Reclassified for comparative purposes

FIVE-YEAR STATEMENT OF RETAINED EARNINGS (DEFICIT)

(Expressed in thousand United States dollars)

	Year ended December 31,				
	1988	1987	1986	1985	1984
Net profit _____	\$10,301	\$ 840	\$ 8,985	\$ 10	\$ 1,078
Deficit at beginning of year _____	(8,296)	(9,136)	(18,121)	(18,131)	(19,209)
Retained earnings (deficit) at end of the year _____	<u>\$ 2,005</u>	<u>(\$ 8,296)</u>	<u>(\$ 9,136)</u>	<u>(\$18,121)</u>	<u>(\$18,131)</u>

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