

LIBERIAN IRON ORE LIMITED

Annual
Report **1989**

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THE ANNUAL MEETING OF LIBERIAN IRON ORE LIMITED SHAREHOLDERS WILL BE HELD ON MAY 25, 1990, AT 10:30 A.M. AT THE OFFICE OF OGILVY RENAULT, 1981 MCGILL COLLEGE AVENUE, SUITE 1200, MONTREAL, QUEBEC, CANADA.

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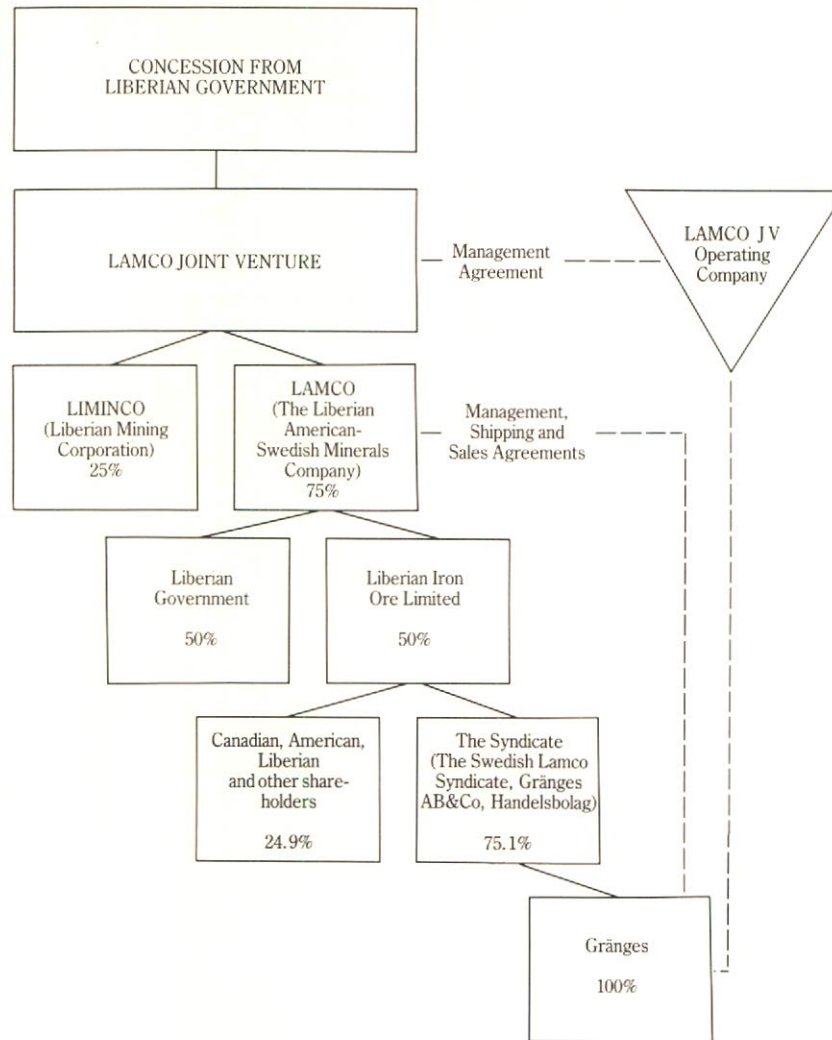
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LIBERIAN IRON ORE LIMITED (LIO)

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 has represented 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 has been 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*

LAMCO JV OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICER

STIG PREMFORS - *Acting General Manager*

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 1989 LIO earned interest and received dividends on these investments at a combined rate of return of 9.2% (7.9% - 1988) on an average investment of \$33,439,599 (\$29,468,079 - 1988). In addition, LIO has received fees for participation in guarantees for LAMCO through Gränges AB and the Syndicate. LIO had a net profit of \$11,319,367 or \$2.86 per share in 1989 compared with a net profit of \$10,301,516 or \$2.60 per share in 1988.

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, 1989, the unpaid dividends payable to LIO equivalent to the royalty accrued to the Government aggregated \$27,464,879 (\$29,666,031 - 1988). 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 10, 1989 LAMCO paid a dividend of \$4,623,832 to LIO in respect of the then unpaid dividends.

LAMCO repaid the balance of \$19,750,000 of its operating loans 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 was released and \$4,647,175 was taken into income by LIO in the first quarter of 1989.

The LAMCO Joint Venture ceased mining operations in the Concession Area on July 29, 1989, and completed all transportation, stockpiling, handling and shipping activities related to such mining operations on October 31, 1989 with the exception of shipping of a small quantity of iron ore re-

maining in the stockpile. It is estimated that the LAMCO Joint Venture will have substantially completed all of its administrative and financial activities and satisfied or made appropriate provision for substantially all of its liabilities and obligations related to its operations by June 30, 1990.

In response to the request of the Government and LIMINCO to facilitate the continuation of mining operations in the Concession Area, using LAMCO's assets and the powers granted in the Concession Agreement, LAMCO entered into an Assignment and Assumption Agreement, dated December 5, 1989, with the Government and LIMINCO. Under the Agreement LAMCO transferred to LIMINCO substantially all of its rights and interests in the assets within the Concession Area and its powers to mine, process, transport and ship iron ore and iron ore products. In return, the Government (a) assumed all pending and future claims, liabilities, demands, obligations, damages and judgments in any way related to or arising out of or connected to any threatened or actual legal, administrative or other similar proceeding in Liberia against any of the LAMCO Parties relating to the LAMCO Joint Venture, (b) paid \$1 and (c) agreed to pay appropriate additional compensation to be determined.

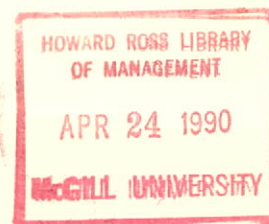
On March 12, 1990 LIO received from LAMCO an aggregate of \$30,562,651 as follows:

- (i) as the earnings of LAMCO in 1989 from iron ore sales which were completed in October 1989 were \$15,456,989, this amount was paid as a dividend to LIO in respect of the then unpaid dividends,
- (ii) as LAMCO is now basically inactive and may be considered a discontinued operation, LAMCO repaid its capital obligation of \$12,855,662 which was due to LIO, and
- (iii) LIO was paid \$2,250,000 representing LIO's portion of the LAMCO capital which was in excess of the par value of the capital stock of LAMCO.

In addition, agreement in principal was reached for the Government to purchase LIO's remaining interest in LAMCO for \$1 and certain other undertakings. Consequently, LIO does not expect to receive any further cash payments from LAMCO. The \$30,562,651 is being taken into LIO's income for the first quarter of 1990.

As a result of negotiations, the additional compensation has been determined to be \$11,700,000 to be paid to LIO in the form of a promissory note to be issued by LIMINCO. The note will have a term of ten years, will not bear interest for the first three years, and the principal shall be repaid in semi-annual instalments beginning on September 15, 1993.

March 12, 1990



BOARD OF DIRECTORS

HANS WERTHÉN
Chairman

*Chairman of AB Electrolux,
Stockholm, Sweden*

GÖSTA BYSTEDT

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

BO ABRAHAMSSON
Vice Chairman

*Chairman of The Liberian
American-Swedish Minerals Company,
London, England*

ROBERT L. MUNRO

*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 PREMFORSS
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
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
March 31, 1989	nil	8.00	6.50
June 30, 1989	nil	8.50	7.75
September 30, 1989	nil	9.00	8.00
December 31, 1989	nil	9.00	8.75

LIO SHARES OUTSTANDING

	1989	1988
Shares outstanding during the year _____	3,955,025	3,955,025
Number of shareholders at December 31 _____	2,897	2,929
located in: Liberia _____	2,368	2,370
U.S.A. and Canada _____	422	452
Other countries _____	107	107

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, 1989 and 1988 and the related statements of profit and retained earnings 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, 1989 and 1988, 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 12, 1990

BALANCE SHEETS

(Expressed in United States dollars)

December 31
1989 1988

ASSETS

CURRENT ASSETS

Cash including time deposits of \$20,560,000 (\$21,005,000 in 1988) _____	\$21,068,982	\$21,208,839
Marketable securities, at market (Note 5) _____	15,706,361	8,895,016
Other receivables _____	230,559	177,341
Total current assets _____	37,005,902	30,281,196
INVESTMENT IN LAMCO (NOTES 1, 2 AND 3) _____	1	1
	<u>\$37,005,903</u>	<u>\$30,281,197</u>

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Accounts payable _____	\$ 108,735	\$ 55,998
Unclaimed dividends _____	85,922	86,145
Total current liabilities _____	194,657	142,143
RESERVE FOR GUARANTEE (NOTE 3) _____		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 _____	13,324,575	2,005,208
Total capital _____	36,811,246	25,491,879
Commitments and contingencies (Notes 1, 2 and 3)		
	<u>\$37,005,903</u>	<u>\$30,281,197</u>

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

On behalf of the Board

H. WERTHÉN

A. G. THOMPSON

STATEMENTS OF PROFIT AND RETAINED EARNINGS

(Expressed in United States dollars)

Year ended December 31
1989 1988

Income (Note 6) _____	\$ 7,688,632	\$ 2,409,237
Expenses _____	(722,463)	(452,789)
Income before adjustments for the following items _____	6,966,169	1,956,448
Exchange gains less exchange losses _____	430,237	524,878
Realized capital (losses) less capital gains in respect of marketable securities sold or called for redemption _____	(48,659)	(106,166)
Write-down of investment in marketable securities to market _____	(132,473)	(132,200)
Reduction of reserve for guarantee issued (Note 3) _____	4,647,175	
Recovery of time deposits pledged to secure LAMCO borrowings (Note 3) _____		8,655,300
Profit before income taxes _____	11,862,449	10,898,260
Income taxes (Note 4) _____	(543,082)	(596,744)
Net profit _____	11,319,367	10,301,516
Retained earnings (deficit) at beginning of year _____	2,005,208	(8,296,308)
Retained earnings at end of year _____	\$13,324,575	\$ 2,005,208
Net profit per share _____	\$ 2.86	\$ 2.60

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

STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

Year ended December 31

1989

1988

Cash flow from operating activities:

Net profit	\$11,319,367	\$10,301,516
Non cash expenses, revenues, losses and gains included in net profit:		
Net (increase) in receivables	(53,218)	(63,767)
Net increase (decrease) in payables	52,514	(310,897)
Exchange gains less exchange losses	(430,237)	(524,878)
Write-down of investment in marketable securities to market	132,473	132,200
Realized capital losses less capital gains in respect of marketable securities sold or called for redemption	48,659	106,166
Reduction of reserve for guarantee issued	(4,647,175)	
Recovery of time deposits pledged to secure LAMCO borrowings		(8,655,300)
Net cash flow from operating activities	6,422,383	985,040
Cash flow from investing activities:		
Purchases of marketable securities	(7,152,625)	(9,133,017)
Proceeds from marketable securities sold or called for redemption	603,529	1,495,231
Net cash (used) by investing activities	(6,549,096)	(7,637,786)
Effect of exchange rate changes on cash	(13,144)	3,296
Net (decrease) in cash	(139,857)	(6,649,450)
Cash at beginning of year	21,208,839	27,858,289
Cash at end of year	\$21,068,982	\$21,208,839

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1989

(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, has participated 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 10, 1989 LAMCO paid a dividend of \$4,623,832 to LIO in respect of the then unpaid dividends. As of December 31, 1989, the unpaid dividends payable to LIO equivalent to the royalty accrued to the Government aggregated \$27,464,879 (\$29,666,031 - 1988). 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.

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 high-grade 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	35,481,713
Write-down January 1, 1982	(35,481,712)
Investment in LAMCO as of January 1, 1982	\$ 1

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, 1989 dividends on the Class B common stock aggregating \$16,823,832 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, all of which were unencumbered at December 31, 1989:

Series C preferred stock 6-1/4% redeemed, at cost	\$ 9,900,000
Dividends on Class B common stock	16,823,832
Total	\$26,723,832

The LAMCO Joint Venture ceased mining operations in the Concession Area on July 29, 1989, and completed all transportation, stockpiling, handling and shipping activities related to such mining operations on October 31, 1989 with the exception of shipping of a small quantity of iron ore remaining in the stockpile. It is estimated that the LAMCO Joint Venture will have substantially completed all of its administrative and financial activities and satisfied or made appropriate provision for substantially all of its liabilities and obligations related to its operations by March 31, 1990.

In response to the request of the Government and LIMINCO to facilitate the continuation of mining operations in the Concession Area, using LAMCO's assets and the powers granted in the Concession Agreement, LAMCO entered into an Assignment and Assumption Agreement, dated December 5, 1989, with the Government and LIMINCO. Under the Agreement LAMCO transferred to LIMINCO substantially all of its rights and interests in the assets within the Concession Area and its powers to mine, process, transport and ship iron ore and iron ore products. In return, the Government (a) assumed all pending and future claims, liabilities, demands, obligations, damages and judgments in any way related to or arising out of or connected to any threatened or actual legal, administrative or other similar proceeding in Liberia against any of the LAMCO Parties relating to the LAMCO Joint Venture, (b) paid \$1 and (c) will pay appropriate additional compensation to be determined. The parties have agreed to negotiate in good faith as soon as possible but with a view of doing so no later than March 31, 1990 the appropriate amount and form of additional compensation due to LAMCO. Such compensation shall be just and equitable to all parties concerned in light of all relevant circumstances. In light of the assumption by the Government of such obligations, liabilities, agreements and claims, the Government and LIMINCO are entitled to credit against the additional compensation due to LAMCO payments made by them in respect of such items; however, the total amount of such credit shall not exceed the amount of additional compensation otherwise due. Pending the winding up of its affairs but not later than June 30, 1990 without the consent of all parties to the Agreement, LAMCO has retained those of its rights under the Concession Agreement necessary to implement the winding up.

The parties have also agreed that, upon the final settlement of the additional compensation and other issues, they will each grant the others unconditional general releases in respect of all past, future, asserted and unasserted, actual and contingent claims and obligations. The Agreement provides that any unresolved disputes arising under the Agreement, the Concession Agreement and the Joint Venture Agreement will be settled by arbitration under UNCITRAL Rules in a proceeding which will be held in London, England.

The following is a summary of LAMCO financial data:

STATEMENTS OF PROFIT

	Year ended December 31	
	1989	1988
Sales _____	\$60,567,007	\$61,200,449
Profit from operations _____	\$14,254,290	\$ 6,678,301
Net profit _____	\$15,456,989	\$ 5,476,039
Shipments in metric tons _____	4,328,448	4,921,150

FINANCIAL POSITION

	December 31	
	1989	1988
Current assets:		
Inventories of ore _____		\$ 9,925,565
Other _____	\$39,295,000	42,053,098
	<u>39,295,000</u>	<u>51,978,663</u>
Current liabilities:		
Guaranteed short-term debt _____		19,750,000
Other _____	4,482,349	18,219,103
	<u>4,482,349</u>	<u>37,969,103</u>
Working capital _____	34,812,651	14,009,560
Non-current assets _____		9,969,933
Net assets _____	<u>\$34,812,651</u>	<u>\$23,979,493</u>

The report of the independent accountants on LAMCO for the year ended December 31, 1988 was qualified as to the ability of LAMCO to continue on a longer term basis. The report in respect of the year ended December 31, 1989 was unqualified as LAMCO has been considered an entity in liquidation, and the accompanying financial statements have been prepared on a going-concern basis and the entire company has been treated as a discontinued operation as defined under generally accepted accounting principles in the United States of America.

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 3

LAMCO PREFERRED STOCK REDEMPTIONS

LAMCO effected the final redemption of its preferred stock on December 2, 1985 when the remaining \$6,050,000 of Series C preferred stock held by LIO was redeemed. Simultaneously with and contingent upon such redemption, LIO and the other preferred stockholders renounced the dividends accruing between July 31, 1984 and December 2, 1985

which amounted to \$2,179,000 of which \$512,569 was owed to LIO. In consideration of Gränges AB and The Swedish Lamco Syndicate, Gränges AB & Co, Handelsbolag (the Syndicate) agreeing not to require repayment of operating 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 might be made by them in respect of guarantees given on loans to LAMCO. The redemption resulted in a recovery of \$6,050,000 in 1985 as the investment previously had been written down. However, as a result of its guarantee, LIO set aside in a special reserve the proceeds of the redemption so that they would be available should it be called to perform under its guarantee which was to terminate at the earlier of (i) December 31, 1991, or (ii) the date LAMCO repaid the loans made to it or (iii) the date LIO 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. Due to repayments made by LAMCO during 1986 of such operating loans the special reserve for guarantee maintained by LIO was reduced by \$1,402,825 and such amount was taken into income by LIO in the second quarter of 1986. LAMCO repaid the balance of the operating loans on January 9, 1989. As a result of the repayment, the \$4,647,175 remaining in the special reserve was released and was taken into income by LIO in the first quarter of 1989.

16.77% of the \$19,677,000 borrowed by LAMCO to finance the redemption of its preferred stock in 1983 was secured by the pledge by LIO of time deposits and the amount of such pledge of \$3,300,000 was deducted from LIO's current assets on its Balance Sheet. 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.

Due to the repayments made by LAMCO during the year ended December 31, 1988 of such loan of \$7,200,000 and the \$8,677,000 balance of the loans to finance the redemption of its preferred stock (of which 16.77% or \$1,455,300 was secured by the pledge of time deposits by LIO), the time deposits pledged by LIO were 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.

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:

	1989	1988
Profit before income taxes	\$11,862,449	\$10,898,260
Items not included in determination of taxable Canadian income:		
Dividends	(5,721,201)	(579,425)
Reduction of reserve for guarantee issued	(4,647,175)	
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	48,659	106,166
Write-down of investment in marketable securities to market	132,473	132,200
Unrealized exchange gains in respect of marketable securities and cash	(430,237)	(524,878)
Other	2,820	(3,432)
Taxable income	<u>\$ 1,247,788</u>	<u>\$ 1,373,591</u>
Taxes (43.84% in 1989; 47.40% in 1988)	\$ 547,030	\$ 651,082
Large corporations tax (0.175%)	5,747	
Tax (refund) in respect of prior years	(9,695)	(54,338)
Income taxes provided	<u>\$ 543,082</u>	<u>\$ 596,744</u>

NOTE 5

MARKETABLE SECURITIES

The market value of the portfolio of high quality Canadian preferred shares listed on Canadian stock exchanges amounted to \$15,706,361 (cost – \$16,179,602) at December 31, 1989 and \$8,895,016 (cost – \$9,221,775) at December 31, 1988 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:

	1989	1988
Dividend from LAMCO _____	\$4,623,832	
Dividends on marketable securities _____	1,097,369	\$ 579,425
Interest earned _____	1,965,882	1,758,942
Fee for guarantee issued _____	1,549	70,870
	<u>\$7,688,632</u>	<u>\$2,409,237</u>

FIVE-YEAR SUMMARY STATEMENT OF PROFIT

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

	Year ended December 31,				
	1989	1988	1987	1986**	1985
Income _____	\$ 7,689	\$ 2,409	\$9,112	\$6,416	\$ 813
Expenses _____	(722)	(453)	(362)	(331)	(278)
Income before adjustments for the following items _____	6,967	1,956	8,750	6,085	535
Exchange gains less exchange losses _____	430	525	193	91	
Realized capital (losses) less capital gains in respect of marketable securities sold or called for redemption _____	(49)	(106)	(129)	(14)	
Write-down of investment in marketable securities to market _____	(132)	(132)	(93)	(76)	
Proceeds of redemption of Series C preferred stock of LAMCO previously written off _____					6,050
Recovery (increase) of time deposits pledged to secure LAMCO borrowings _____		8,655	(7,200)	1,845	
Reduction of reserve for guarantee issued _____	4,647			1,403	
Profit before appropriation and income taxes _____	11,863	10,898	1,521	9,334	6,585
Appropriation to reserve for guarantee _____					(6,050)
Canadian income taxes _____	(543)	(597)	(681)	(348)	(525)
Net profit _____	<u>\$ 11,320</u>	<u>\$10,301</u>	<u>\$ 840</u>	<u>\$8,986</u>	<u>\$ 10</u>
Net profit per share* _____	<u>\$ 2.86</u>	<u>\$ 2.60</u>	<u>\$ 0.21</u>	<u>\$ 2.27</u>	<u>\$0.002</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,

	1989	1988	1987	1986	1985
Net profit _____	\$11,320	\$10,301	\$ 840	\$ 8,985	\$ 10
Retained earnings (deficit) at beginning of year _____	2,005	(8,296)	(9,136)	(18,121)	(18,131)
Retained earnings (deficit) at end of year _____	<u>\$13,325</u>	<u>\$ 2,005</u>	<u>(\$ 8,296)</u>	<u>(\$ 9,136)</u>	<u>(\$18,121)</u>

LIBERIAN IRON ORE LIMITED

1989