# LIBERIAN IRON ORE LIMITED



Annual Report 1982

# LIBERIAN IRON ORE LIMITED

## ANNUAL REPORT 1982

THE ANNUAL MEETING OF LIBERIAN IRON ORE LIMITED SHAREHOLDERS WILL BE HELD ON JUNE 1, 1983, AT 4:00 P.M. AT THE OFFICE OF OGILVY, RENAULT, 1981 McGILL COLLEGE AVENUE, SUITE 1200, MONTREAL, QUEBEC, CANADA.

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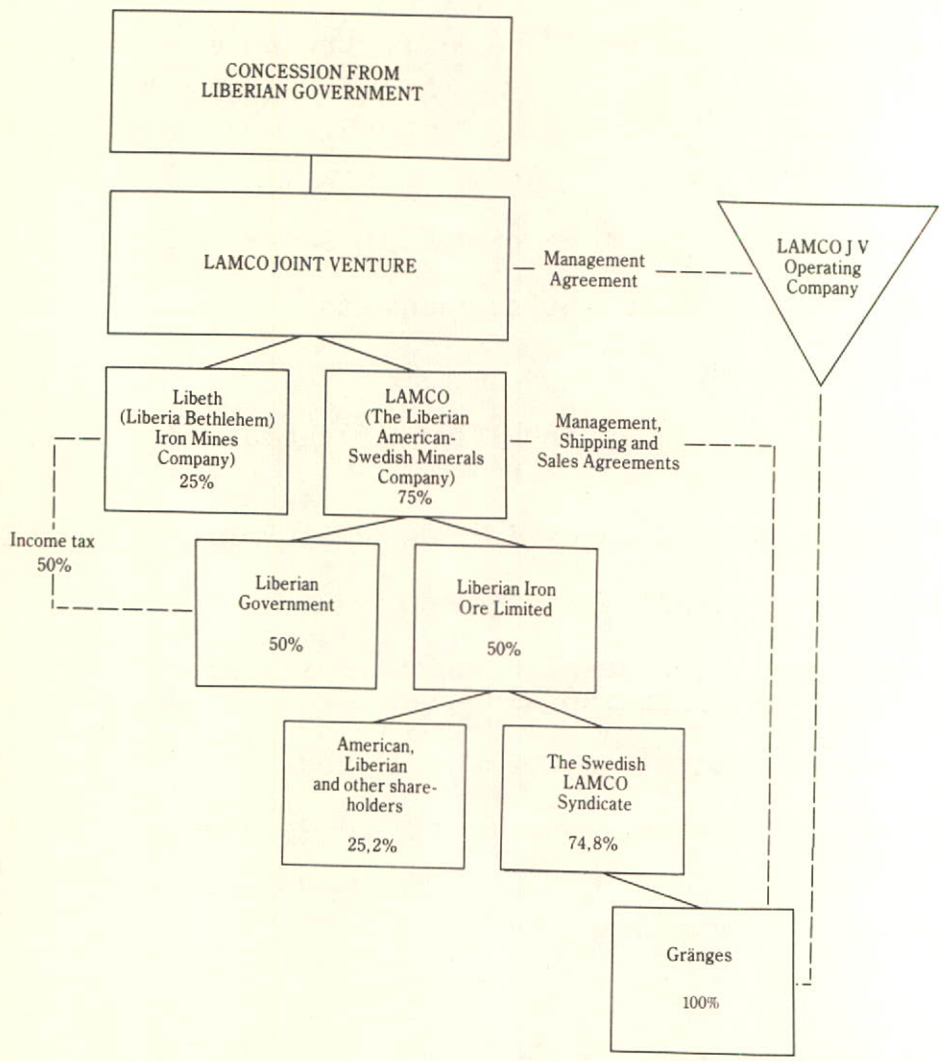
Upon written request, the Corporation will provide without charge to any shareholder a copy of the Corporation's latest annual report on Form 10-K, including financial statements and schedules thereto, filed with the United States Securities and Exchange Commission pursuant to the United States Securities and 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, 666 Third Avenue, New York, N.Y. 10017, U.S.A.

# LAMCO JOINT VENTURE OWNERSHIP STRUCTURE



## 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 Bethelehem Steel Corporation through its wholly owned subsidiary, Liberia Bethlehem Iron Mines Company, (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.

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

OFFICERS

Tryggve Angel - President
Arne Dahlstrom - Executive Vice President

HEAD OFFICE

S-105 45 Stockholm, Sweden

LAMCO J.V. OPERATING COMPANY is a subsidiary of Granges International Mining.

OFFICER

John L. Pervola - General Manager

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

## COMMENTS

LIO Determination to Write Down its Investment in LAMCO. At a special meeting of the Board of Directors of LIO, on January 14, 1983, the operations of the LAMCO mine in Liberia were reviewed together with the previously announced major cost reduction program of LAMCO and the efforts underway to deal with the serious liquidity crisis of LAMCO. LAMCO management advised the LIO directors of the steps taken to date including reduction of capital expenditures, cancellation of certain equipment purchases, scheduling of staff and employee reductions and planned reduction of ore production. LAMCO's results for the year 1982, which were at that time unknown, were expected to show an overall loss and losses were expected to continue in 1983 and 1984.

The LIO directors considered the future prospects for the investment in LAMCO, particularly in light of the current and projected depressed conditions in the world steel industry and their effect on iron ore producers, especially noncaptive mines such as LAMCO. After also reviewing projections for generation of cash flow resulting from the mining of the remaining high-grade ore reserves at Nimba, expected to be depleted by 1987-88, the LIO directors decided to write down to $1 its investment in LAMCO theretofore carried at U.S. $35.9 million effective retroactively as of January 1, 1982. LIO's only other assets are cash and bank certificates of deposits in the aggregate amount of $4,580,000 as of December 31, 1982. As a result of the write-down, the opinion of Price Waterhouse, LIO's independent accountants, on LIO's 1981 financial statements, which had been qualified as being subject to the realization of LIO's investment in LAMCO, is no longer qualified with respect to such matter.

The Board of Directors of LIO also announced that it had considered the future of LIO in the light of the future prospects for its investment in LAMCO and of the write-down, and decided that an appropriate posture for the future would be to employ its net revenues from the earnings on its cash balances to enter into mineral exploration in Canada, particularly by participating with others in exploration. To date, LIO has not invested any of its funds in any such programs.

LAMCO Results. The severe economic problems experienced by the European steel industry for the past several years continued through 1982. The effects of the continuing recession in the European steel industry on the iron ore industry have been catastrophic. Ore price increases in 1979 and 1980, after two years of declining prices, did not offset increased costs of production and transportation which are continuing to rise, but LAMCO's 1981 ore prices were 4% lower than those in 1980. While ore prices f.o.b. Buchanan for 1982 increased 22% over those in 1981, shipments dramatically eroded from 7.5 million tons in 1981 to 5.4 million tons in 1982, more than offsetting the increase in prices. This reduced level of shipments in 1982 is expected to continue for 1983 and LAMCO's management has no reason to believe that market conditions will improve in the foreseeable future. Ore price negotiations for 1983 have not been completed, but LAMCO has reached agreement with certain major customers on prices representing a 10% reduction from 1982 prices f.o.b. Buchanan.

LAMCO did not have a net profit from 1977 to 1981. Its net loss in 1980 of $3.2 million deteriorated to a net loss of $18.0 million in 1981. LAMCO had a slight profit of $70,000 in 1982. Losses are expected to resume in 1983 and 1984. Total revenues decreased by 13.6% in 1982 due to the decline in shipments. Costs of production were significantly reduced, largely as the result of intensified cost control programs and a build-up of finished product inventories.

The opinion of Price Waterhouse, LAMCO's independent accountants, on the 1982 LAMCO financial statements is qualified as being subject to LAMCO's ability to continue as a going concern.

In response to the depressed state of the iron ore industry and the dramatic reduction in shipments, reductions in production were implemented, a series of cost saving measures were taken and purchasing was curtailed. Despite these measures, inventories of iron ore have grown, carrying costs have increased and LAMCO is facing an extremely serious financial crisis.

In order to consider appropriate measures to respond to the crisis, a special meeting of the Board of Directors of LAMCO was held on November 12, 1982. In light of the crisis facing LAMCO, the Board approved in principle a cost reduction program for the LAMCO Joint Venture with a goal of a reduction of at least $15 million in 1983 and of at least $20.5 million in 1984. Such program will include, but not be limited to, a program to reduce personnel by at least 1,300 and related reductions in electricity, transportation and messhalls, and reductions in schooling, training, contributions and overseas services. The Board also appointed a special committee consisting of certain members of the Government of Liberia and representatives of the private investors to supervise the implementation of the cost reduction program.

As a further effort to ease the liquidity crisis, the LAMCO Board approved a reduction in production of finished products for the LAMCO Joint Venture from 9.5 million tons in 1982 to 6.2 million tons in 1983 and 8.0 million tons in 1984.

The cost reduction program and the reduction of production were approved by the participants in the Joint Venture in January 1983. Immediately thereafter, the program began to be implemented and an initial group of redundant employees were terminated. Other aspects of the program are continuing to be developed and will be implemented during the first six months of 1983. It is not possible at the present time to determine whether the cost reduction program goal will be achieved on schedule or, if it is achieved, whether it will be sufficient to enable LAMCO to continue to meet its financial obligations.

The Board of Directors of LAMCO determined at its meeting on June 9, 1982 to authorize the redemption of all shares of Series A, B and C preferred stock for which the redemption dates had previously been waived by the preferred stockholders. Such redemption took place on January 7, 1983 and aggregated $17,127,000. Simultaneously with and contingent upon such redemption, the holders of such shares renounced the payment of accrued but unpaid dividends through January 7, 1983 ($15.4 million) on all shares of Series A, B and C preferred stock. LAMCO has effected such redemptions through additional short-term borrowings. Such borrowings are guaranteed by the holders of the Series A, B and C preferred stock in the proportion of the redemption proceeds received by them. A further redemption of $2.6 million is due on June 1, 1983. The holders of the preferred shares have indicated that they expect satisfaction of the undeclared and unpaid dividends accruing after January 7, 1983 as well as the June 1, 1983 redemption.

LIO has received no cash dividends from LAMCO since 1977 and expects to receive none in 1983 and 1984. As a result of the write-down of its investment in LAMCO, LIO no longer accounts for LAMCO on the equity method and consequently its future results will depend on its management of cash balances and costs of administration, and its success in entering into mineral exploration programs in accordance with the Board's decision in January 1983.

March, 1983

## 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. Until 1980, the common shares were quoted in the National Association of Securities Dealers Automated Quotation system (NASDAQ); 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 during the period 1979-1982.

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%.

## INFORMATION WITH RESPECT TO LIO SHARES

| For quarter ending | Dividends | Range of prices per share on The Toronto Stock Exchange (expressed in Canadian dollars) | |
|---|---|---|---|
| March 31, 1981 | nil | 2.90 | 3.50 |
| June 30, 1981 | nil | 3.00 | 3.60 |
| September 30, 1981 | nil | 1.75 | 3.50 |
| December 31, 1981 | nil | 1.71 | 3.20 |
| March 31, 1982 | nil | 1.20 | 2.50 |
| June 30, 1982 | nil | .85 | 1.35 |
| September 30, 1982 | nil | 1.25 | 2.10 |
| December 31, 1982 | nil | 1.00 | 1.55 |

| | 1982 | 1981 |
|---|---|---|
| Shares outstanding during the year | 3,955,025 | 3,955,025 |
| Number of shareholders | 3,691 | 3,763 |
| located in: Liberia | 2,525 | 2,526 |
| U.S.A. and Canada | 966 | 1,037 |
| Other countries | 200 | 200 |

Price Waterhouse

153 EAST 53RD STREET
NEW YORK, NEW YORK 10022
212 371-2000

March 29, 1983

## 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, 1982 and 1981 and the related statements of loss and (deficit) retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1982. 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 report dated March 29, 1982, our opinion on the 1981 financial statements was qualified as being subject to the realization of the Company's investment in the Liberian American-Swedish Minerals Company (LAMCO). As explained in Note 1, the carrying amount of that investment has been charged to operations in the current year as required by generally accepted accounting principles. Accordingly, our present opinion on the 1981 financial statements, as presented herein, is no longer qualified with respect to this matter.

In our opinion, the financial statements examined by us present fairly the financial position of Liberian Iron Ore Limited as of December 31, 1982 and 1981, and the results of their operations and changes in their financial positions for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse

## LIBERIAN IRON ORE LIMITED

## B A L A N C E   S H E E T S

(Expressed in United States dollars)

| | December 31, 1 9 8 2 | December 31, 1 9 8 1* |
|---|---|---|
| **A s s e t s** | | |
| Current assets: | | |
| Cash, including time deposits of $4,300,000 ($4,274,056 - 1981) | $ 4,464,179 | $ 4,492,091 |
| Canadian taxes receivable (Note 5) | 65,018 | |
| Accrued interest receivable | 48,539 | 32,795 |
| Total current assets | 4,577,736 | 4,524,886 |
| Investment in LAMCO (Notes 1, 2, 3 and 4): | 1 | |
| 6-1/4% Series C preferred stock, at cost plus undeclared and unpaid cumulative dividends | | 12,452,347 |
| Class B common stock, at cost adjusted for changes in equity in undistributed earnings of LAMCO attributable to common stock | | 10,657,820 |
| Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation | | 12,855,662 |
| | | 35,965,829 |
| Organization and preoperating expenses less accumulated amortization of $459,800 in 1981 (Note 1) | | 153,970 |
| | $ 4,577,737 | $40,644,685 |
| **Liabilities and capital** | | |
| Current liabilities: | | |
| Accounts payable | $ 168,589 | $ 75,383 |
| Unclaimed dividends | 87,580 | 87,580 |
| Canadian taxes payable (Note 5) | | 164,914 |
| Total current liabilities | 256,169 | 327,877 |
| Deferred Liberian taxes (Notes 1 and 5) | | 638,086 |
| Capital:- | | |
| Common shares without nominal or par value: | | |
| Authorized - 5,000,000 shares | | |
| Issued - 3,955,025 shares | 23,486,671 | 23,486,671 |
| (Deficit)retained earnings | (19,165,103) | 16,192,051 |
| Total capital | 4,321,568 | 39,678,722 |
| Commitments and contingencies (Note 1) | | |
| "Tryggve Angel"     "Alan G. Thompson" | $ 4,577,737 | $40,644,685 |

*Reclassified for comparative purposes.

# LIBERIAN IRON ORE LIMITED

## STATEMENTS OF LOSS AND (DEFICIT) RETAINED EARNINGS

(Expressed in United States dollars)

| | Year ended December 31, | | |
|---|---|---|---|
| | 1982 | 1981 | 1980 |
| Interest income | $ 575,086 | $ 726,338 | $ 564,013 |
| Expenses (Notes 5, 6 and 7) | 450,528 | 683,250 | 637,847 |
| Income before adjustment for undeclared and unpaid current dividends on Series C preferred stock and for change in equity in the undistributed earnings of LAMCO attributable to common stock | 124,558 | 43,088 | (73,834) |
| Write-down of investment in LAMCO (Note 1) | (35,481,712) | | |
| Undeclared and unpaid current dividends on Series C preferred stock (Note 4) | | 618,750 | 618,750 |
| Change in equity in the undistributed earnings of LAMCO attributable to common stock (Note 4) | | (8,299,122) | (863,399) |
| Net loss | (35,357,154) | (7,637,284) | (318,483) |
| Retained earnings at beginning of year | 16,192,051 | 23,829,335 | 24,147,818 |
| (Deficit) retained earnings at end of year | ($19,165,103) | $16,192,051 | $23,829,335 |
| Net loss per share | ($8.94) | ($1.93) | ($.08) |

## LIBERIAN IRON ORE LIMITED

### STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Expressed in United States dollars)

| | Year ended December 31, | | |
|---|---|---|---|
| | 1982 | 1981* | 1980* |
| Working capital provided (applied):- | | | |
| Net loss | ($35,357,154) | ($7,637,284) | ($318,483) |
| Charges (credits) not using or providing current working capital: | | | |
| Write-down of investment in LAMCO | 35,481,712 | | |
| Change in equity in the undistributed earnings of LAMCO attributable to common stock | | 8,299,122 | 863,399 |
| Deferred Liberian taxes | | 154,687 | 135,351 |
| Increase in unpaid cumulative dividends on Series C preferred stock | | (618,750) | (618,750) |
| Amortization of organization and preoperating expenses | | 29,401 | 30,478 |
| Increase in working capital | $ 124,558 | $ 227,176 | $ 91,995 |
| Composition of increase (decrease) in working capital: | | | |
| Cash | ($ 27,912) | $ 310,691 | ($ 11,956) |
| Accrued interest receivable | 15,744 | 22,792 | (6,830) |
| Accounts payable | (93,206) | 26,604 | 141,317 |
| Canadian taxes receivable/ payable | 229,932 | (132,911) | (30,536) |
| Increase in working capital | $ 124,558 | $ 227,176 | $ 91,995 |

*Reclassified for comparative purposes.

LIBERIAN IRON ORE LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1982

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 2 for information regarding components of investment). The Government of Liberia owns the other 50% of the LAMCO common stock.

Beginning in the third quarter of 1982, there was a dramatic deterioration in the world steel and iron ore markets. LAMCO's shipments were severely reduced compared to the comparable period of 1981 and for the preceding quarter of 1982. Despite recently implemented reductions in LAMCO's production, inventories grew, carrying costs increased and LAMCO faced a serious liquidity crisis at year-end.

In order to consider appropriate measures to respond to the crisis, a special meeting of the Board of Directors of LAMCO was held in November 1982. Management advised the LAMCO Board that Granges AB, which has guaranteed short-term borrowings in the aggregate amount of approximately $39 million and has indicated that it would continue its guarantees of outstanding borrowings for the time being, would not, however, guarantee any additional borrowings to ensure the liquidity of LAMCO. In addition, management advised that in LAMCO's current financial condition it could not borrow additional funds without the guarantee of third parties. The Government of Liberia (Government) advised the LAMCO Board that it was unable to lend any funds to LAMCO or to guarantee any new LAMCO borrowings.

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

| Financial position | December 31, 1982 | December 31, 1981 |
|---|---|---|
| Current assets: | | |
| Inventories of ore | $54,830 | $29,225 |
| Other | 32,550 | 35,188 |
| | 87,380 | 64,413 |
| Current liabilities:- | | |
| Current maturities: | | |
| Guaranteed short-term debt | 38,750 | 32,155 |
| Preferred stock | 19,677 | |
| Other | 18,492 | 20,118 |
| | 76,919 | 52,273 |
| Working capital | 10,461 | 12,140 |
| Noncurrent assets | 60,387 | 79,233 |
| Noncurrent liabilities | (14,299) | (15,217) |
| Redeemable preferred stock: | | |
| Series A and B | (21,664) | (38,041) |
| Series C | (6,600) | (9,900) |
| Net assets | $28,285 | $28,215 |

| Statement of profit (loss) | For year ended December 31, 1982 | 1981 | 1980 |
|---|---|---|---|
| Sales | $94,877 | $109,799 | $110,875 |
| Profit (loss) from operations | 7,732 | (9,863) | 1,974 |
| Net profit (loss) | 70 | (17,994) | (3,165) |

The report of independent accountants on LAMCO for the years ended December 31, 1982 and 1981 was qualified as to the ability of LAMCO to continue as a going concern in view of its current financial condition.

At a special meeting of the Board of Directors of LIO on January 14, 1983, the operations of LAMCO were reviewed together with the preliminary results of LAMCO's new cost reduction program and LAMCO's efforts to deal with its serious liquidity crisis. The directors considered the future prospects for the investment in LAMCO, particularly in light of the current and projected depressed conditions in the world steel industry and their effect on iron ore producers, especially noncaptive mines such as LAMCO.

After reviewing the projections for funds generation coming out of the remaining high-grade ore reserves at the LAMCO Joint Venture's currently producing iron mine in Liberia, expected to be depleted by

1987-88, and the priority distribution of the assets of LAMCO (see Note 2), the directors decided to write down to $1 LIO's investment in LAMCO as follows (in thousands of U.S. dollars).

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

Should LAMCO recover from its current financial crisis and the long-term prospects of the world steel and iron ore markets improve, LIO may recover a portion of its original investment in LAMCO at a future date. Any such gain will be recognized by LIO in the period during which LIO receives unencumbered cash distributions from LAMCO.

NOTE 2 - INVESTMENT IN LAMCO:

LAMCO, a Liberian corporation, participates with Liberia Bethlehem Iron Mines Company (LIBETH), a wholly owned subsidiary of Bethlehem Steel Corporation, in developing and mining iron ore deposits in Liberia under a concession granted by the Government of the Republic of Liberia which expires on November 18, 2023. The LAMCO Joint Venture Agreement between LAMCO and LIBETH provides that LAMCO has a 75% and LIBETH 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. LIBETH and LAMCO are discussing the possible assumption of LIBETH's 25% interest in the LAMCO Joint Venture by LAMCO.

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 and iron ore products during each quarter. The profit of LAMCO is distributed first to the preferred stockholders for required dividends. After these required payments are made, dividends on the common stock may be declared first to LIO as a dividend in an amount equivalent to the Government's royalty and, then, any remaining amount may be distributed equally to the Government and to LIO. At December 31, 1982, the amount equivalent to the Government's royalty which had not been declared as a dividend to LIO was $22,123,000.

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

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

(2) The Series C preferred stock is to be redeemed pursuant to a schedule which provides 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 has 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 A and B preferred stock has priority over the Series C preferred stock. The Series C preferred stock has priority over the Class A and Class B common stock, with respect to dividends and the distribution of assets in the event of liquidation.

LAMCO's Board of Directors has not declared dividends on the preferred stock or the Class B common stock for amounts equivalent to the accrued royalty to the Government of Liberia, or on the Class A and B common stock equally, since the third quarter of 1977.

In 1982 and prior years, the holders of preferred stock (including LIO) agreed to waive scheduled redemption of preferred stock.

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). 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 the Series C preferred stock) through January 7, 1983 on all shares of Series A, B and C preferred stock. LAMCO effected such redemptions through additional medium-term borrowings guaranteed by the holders of the Series A, B and C preferred stock in the proportion of the redemption proceeds received by them.

Because of a 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 return), LIO will likely realize a taxable gain on the redemption of the Series C preferred stock of LAMCO. The amount of taxes due on such gain is currently being reviewed with representatives of the Canadian Government.

LIO and the other preferred stockholders have indicated that they expect satisfaction of the undeclared and unpaid dividends accruing after January 7, 1983 attributable to the preferred stock as well as the redemptions of principal amounts of preferred stock scheduled in 1983, and believe that this can be achieved through obtaining medium-term financing or other means. In the event that dividends cannot be satisfied and the required redemptions met, the preferred stockholders have indicated their agreement to further waive scheduled redemptions of preferred stock until 1984.

## NOTE 4 - LIO'S EQUITY IN LAMCO'S EARNINGS:

Prior to January 1, 1982, LIO accounted for its investment in LAMCO under the equity method. As a result of the decision to write down the carrying value of this investment to $1, described in Note 1, LIO discontinued this accounting policy effective January 1, 1982.

LIO's equity in the changes in the undistributed earnings of LAMCO attributed to common stock and included in LIO's 1981 and 1980 Statements of Loss was computed in accordance with the provisions of the Concession Agreement and consisted of the following elements (in thousands of US dollars):

| | 1981 | 1980 |
|---|---|---|
| LAMCO's net loss | ($17,994) | ($ 3,165) |
| Dividends on Series A, B and C preferred stock, undeclared and unpaid | (2,996) | (2,996) |
| Amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock | (4,392) | (4,435) |
| Basis for calculation of LIO's equity in LAMCO's losses attributable to common stock | ($25,382) | ($10,596) |
| LIO's 50% share thereof | ($12,691) | ($ 5,298) |
| Add - Amount equivalent to royalty paid to Government of Liberia not yet declared as a dividend to LIO on the Class B common stock | 4,392 | 4,435 |
| Change in LIO's equity in undistributed earnings of LAMCO attributable to Class B common stock | ($ 8,299) | ($ 863) |

Thus, the investment in LAMCO Class B common stock of $10,658,000 at December 31, 1981 included LIO's cost adjusted for LIO's 50% share of earnings, losses and dividends received plus LIO's right to a priority distribution from LAMCO's retained earnings of the unpaid equalizing dividend equivalent to the royalty paid by LAMCO to the Government of Liberia, as follows (in thousands of U.S. dollars):

| | |
|---|---|
| Investment in Class B common stock of LAMCO, adjusted for LIO's 50% share of earnings, losses and dividends received | ($ 7,650,000) |
| Cumulative undeclared equalizing dividends, equivalent to royalty paid by LAMCO to the Government of Liberia | 18,308,000 |
| | $10,658,000 |

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 paid as a dividend to LIO is exempt from Canadian tax.

LIO is subject to Canadian and provincial corporate taxes at a combined rate (approximately 48%) on its taxable income derived from interest income less normal business expenses. Included in expenses for 1982, 1981 and 1980 are Canadian income taxes amounting to $101,000, $195,000 and $30,000, respectively.

LIO's income for Canadian tax purposes differs from its net loss for financial statement purposes due to the inclusion of certain items in expenses under generally accepted accounting principles which are not deductible for Canadian income tax purposes.

The income before adjustment for undeclared and unpaid current dividends on Series C preferred stock and for change in equity in the undistributed earnings of LAMCO attributable to common stock is reconciled to taxable income as follows (in thousands of US dollars):

| | 1982 | 1981 | 1980 |
|---|---|---|---|
| Income (loss) before adjustment | $125 | $ 43 | ($ 74) |
| Add: | | | |
| Canadian taxes provided | 101 | 195 | 30 |
| Provision for deferred Liberian taxes | | 155 | 135 |
| Acquisition expenditures - tax basis | | | 43 |
| Taxable income before utilization of tax loss carry-forwards | 226 | 393 | 134 |
| Utilization of tax loss carry-forwards | | | (70) |
| Taxable income | $226 | $393 | $ 64 |

Any dividends received on the Series C preferred stock will be subject to a 25% withholding tax by the Government of Liberia. A provision of $155,000 for such taxes is included in expenses in 1981; $135,000 for 1980. Accrued Liberian deferred taxes of $638,000 at December 31, 1981 were reversed in connection with the write-down of the company's investment in LAMCO (see note 1).

NOTE 6 - DIRECTORS, OFFICERS AND THEIR REMUNERATION:

There are five directors and seven officers of LIO at December 31, 1982. Three of the officers are also directors. Aggregate remuneration of directors included in other expenses was $35,000, $36,000 and $69,000 in 1982, 1981 and 1980, respectively.

NOTE 7 - EXPENSES:

Included in 1980 expenses is $45,000 for consulting, legal, accounting and other fees and expenses relating to LIO's proposed participation in the acquisition of an operating coal mine. The investigation was concluded and there are no similar expenses in 1981 and 1982.

## 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 results were almost entirely dependent upon the results of operations of LAMCO. Effective January 1, 1982, the LIO Board of Directors decided to write-down to $1 its investment in LAMCO and to discontinue equity accounting for its investment. This decision was taken after reviewing LAMCO's current liquidity crisis, the projections for funds generation coming out of the remaining high-grade ore reserves of LAMCO in Liberia and the priority distribution of LAMCO's assets. Accordingly after this write-down, LIO's results will be derived primarily from its management of its cash balances and costs of administration.

After taking the decision described above, the LIO Board of Directors decided that an appropriate posture for the future would be to employ its net revenues from the earnings of its cash balances to enter into mineral exploration in Canada, particularly by participating with others in exploration programs.

## FIVE-YEAR SUMMARY STATEMENT OF LOSS

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

| | Year ended December 31, 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| Interest income | $ 575 | $ 727 | $ 564 | $ 452 | $ 413 |
| | 575 | 727 | 564 | 452 | 413 |
| Expenses | 450 | 684 | 638 | 983 | 358 |
| | 125 | 43 | (74) | (531) | 55 |
| Write-down of investment in LAMCO | (35,482) | | | | |
| Change in equity in the undistributed earnings of LAMCO attributable to common stock | | (8,299) | (863) | (15,564) | (7,756) |
| Undeclared and unpaid current dividends on Series C preferred stock | | 619 | 619 | 619 | 619 |
| Net loss | ($35,357) | ($ 7,637) | ($ 318) | ($15,476) | ($ 7,082) |
| Loss per share * | ( $8.94) | ( $1.93) | ( $0.08) | ( $3.91) | ( $1.79) |
| Cash dividends per share | | | | | $0.50 |

*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, | | | | |
|---|---|---|---|---|---|
| | 1982 | 1981 | 1980 | 1979 | 1978 |
| Net (loss) | ($35,357) | ($ 7,637) | ($ 318) | ($15,476) | ($ 7,082) |
| Retained earnings at beginning of year | 16,192 | 23,829 | 24,147 | 39,623 | 48,683 |
| | (19,165) | 16,192 | 23,829 | 24,147 | 41,601 |
| Deduct - Cash dividends declared | | | | | 1,978 |
| (Deficit) Retained earnings at end of the year | ($19,165) | $16,192 | $23,829 | $24,147 | $39,623 |

## BOARD OF DIRECTORS

| | |
|---|---|
| Hans Werthen<br>Chairman | Chairman of AB Electrolux,<br>Chairman of Granges AB, and<br>Chairman of L.M. Ericsson,<br>Stockholm, Sweden |
| Bo Abrahamsson<br>Vice Chairman | Vice Chairman of Granges AB,<br>Stockholm, Sweden |
| Tryggve Angel<br>President | President of Granges<br>International Mining,<br>Stockholm, Sweden |
| Brock F. Clarke, Q.C. | Partner of the law firm of Ogilvy,<br>Renault, Montreal,<br>Quebec, Canada |
| Alan G. Thompson | Chairman of Brink, Hudson &<br>Lefever Ltd. Vancouver,<br>British Columbia, Canada |

**OFFICER**
Eva Blachere
Secretary-Treasurer

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

**FOREIGN OFFICE**
666 Third Avenue, New York, N.Y. 10017, U.S.A.

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

Sullivan & Cromwell
125 Broad Street, New York, N.Y. 10004, U.S.A.

**INDEPENDENT ACCOUNTANTS**
Price Waterhouse
153 East 53rd Street, New York, N.Y. 10022, U.S.A.

**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.