LIBERIAN IRON ORE LIMITED

Annual Report 1986

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LIBERIAN IRON ORE LIMITED

DOUGLAS BUILDING,
72 UNIVERSITY AVENUE,
CHARLOTTETOWN,
PRINCE EDWARD ISLAND,
CANADA.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of LIBERIAN IRON ORE LIMITED will be held at the office of Ogilvy, Renault, Suite 1200, 1981 McGill College Avenue, Montreal, Quebec, Canada, on Friday, May 15, 1987 at the hour of 12 o'clock noon, Eastern Daylight Saving Time, for the following purposes:

1. To receive the annual report of the Board of Directors and the financial statements of the Corporation and the auditors' report thereon for the year ended December 31, 1986;

2. To elect directors;

3. To appoint auditors; and

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

By the order of the Board of Directors:

INGEMAR UUSSAAR
Secretary

April 8, 1987

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

SOLICITATION OF PROXIES

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

APPOINTMENT AND REVOCATION OF PROXIES

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

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

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

VOTING SHARES AND PRINCIPAL HOLDERS

The Corporation has outstanding 3,955,025 common shares without nominal or par value, each carrying the right to one vote per share.

The directors and officers of the Corporation do not know of any person or company beneficially owning or exercising control or direction over shares carrying more than 10% of the votes attached to all shares of the Corporation, other than The Swedish Lamco Syndicate, Gränges AB & Co, Handelsbolag (the "Syndicate"), which owns beneficially 2,968,612, or approximately 75.1%, of the outstanding shares. Gränges AB, a Swedish company, also beneficially owns such shares indirectly as the holder of the entire interest in the Syndicate. Gränges AB is a subsidiary of AB Electrolux, also a Swedish company.

ANNUAL REPORT, FINANCIAL STATEMENTS AND AUDITORS' REPORT

The annual report of the Board of Directors of the Corporation and the financial statements of the Corporation for the year ended December 31, 1986 and the auditors' report thereon will be presented to the meeting for the inspection of shareholders.

ELECTION OF DIRECTORS

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

In addition to the common shares of the Corporation set forth above, Messrs. Bystedt and Werthén own beneficially 205,789 shares and 584,216 shares (25 Kronor), respectively, of AB Electrolux.

Name, position and office with the Corporation and principal occupations and employment	Became director	Approximate number of the Corporation's voting shares (common shares) beneficially owned or over which control or direction is exercised (1)
BO ABRAHAMSSON, (2) Vice Chairman of the Corporation; Vice Chairman of Gränges AB (mining and nonferrous metals fabrication); and President and owner of Motivation Bo Abrahamsson AB (management consultants), Stockholm, Sweden.	1978	1
GÖSTA BYSTEDT, Vice Chairman of AB Electrolux (manufacturer of household appliances, machinery and equipment); and President of Gränges AB (mining and non-ferrous metals fabrication), Stockholm, Sweden.	1983	–
BROCK F. CLARKE, Q.C., (2) Partner of the law firm of Ogilvy, Renault, Montreal, Quebec, Canada.	1963	9
ALAN G. THOMPSON, (2) Chairman of Brink, Hudson & Lefever Ltd. (investment dealers and stock brokers), Vancouver, British Columbia, Canada.	1974	1,000
HANS WERTHÉN, Chairman of the Corporation, Chairman of AB Electrolux (manufacturer of household appliances, machinery and equipment); and Chairman of Gränges AB (mining and non-ferrous metals fabrication), Stockholm, Sweden.	1977	1

(1) The information as to the number of shares beneficially owned or over which control or direction is exercised, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually.
(2) Member of Audit Committee.

REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS IN 1986

The aggregate cash remuneration paid or payable by the Corporation to the seven executive officers of the Corporation for services rendered during its fiscal year ended December 31, 1986 was $25,900.

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

The directors of the Corporation receive a fee of $500 for each meeting of directors attended and held immediately following the Annual Meeting of Shareholders, a fee of $3,000 for each meeting held prior to December 10, 1986 and a fee of $5,000 for each meeting held beginning with December 10, 1986 that is held in conjunction with a meeting of the Directors of The Liberian American-Swedish Minerals Company ("LAMCO"), and fees for other meetings determined by the directors depending upon the circumstances.

INTEREST IN TRANSACTIONS

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

By agreement among LAMCO, LIMINCO and the Syndicate, Gränges AB is employed as manager of the Joint Venture. For its management services in 1986, Gränges AB received a fee of $815,534. LAMCO has retained Gränges AB as its exclusive sales agent for LAMCO's share of the Joint Venture iron ore production. For its services in 1986 under this agreement, Gränges AB received a fee of $1,526,100. In addition, Gränges International Mining, a division of Gränges AB, received $225,627 for management and administrative services rendered to LAMCO in 1986.

During 1986, the Syndicate provided goods or services to the Joint Venture in the ordinary course of its business. Gränges AB received approximately 419,978 Kronor for products sold to the Joint Venture and AB Electrolux received 232,586 Kronor for products sold to the Joint Venture.

The address of the Syndicate, Gränges AB, Gränges International Mining and AB Electrolux is Luxbacken 1, Lilla Essingen, S-10545 Stockholm, Sweden.

APPOINTMENT OF AUDITORS

Price Waterhouse have served as auditors of the Corporation since its incorporation in 1958. Except where authority to vote with respect to the appointment of auditors is withheld, the persons named as proxy in the accompanying form of proxy will vote for the re-appointment of the auditors of the Corporation at the meeting.

OTHER MATTERS

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

APPROVAL BY DIRECTORS

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

Dated: April 8, 1987

INGEMAR UUSSAAR
Secretary

LIBERIAN IRON ORE LIMITED

Annual Report 1986

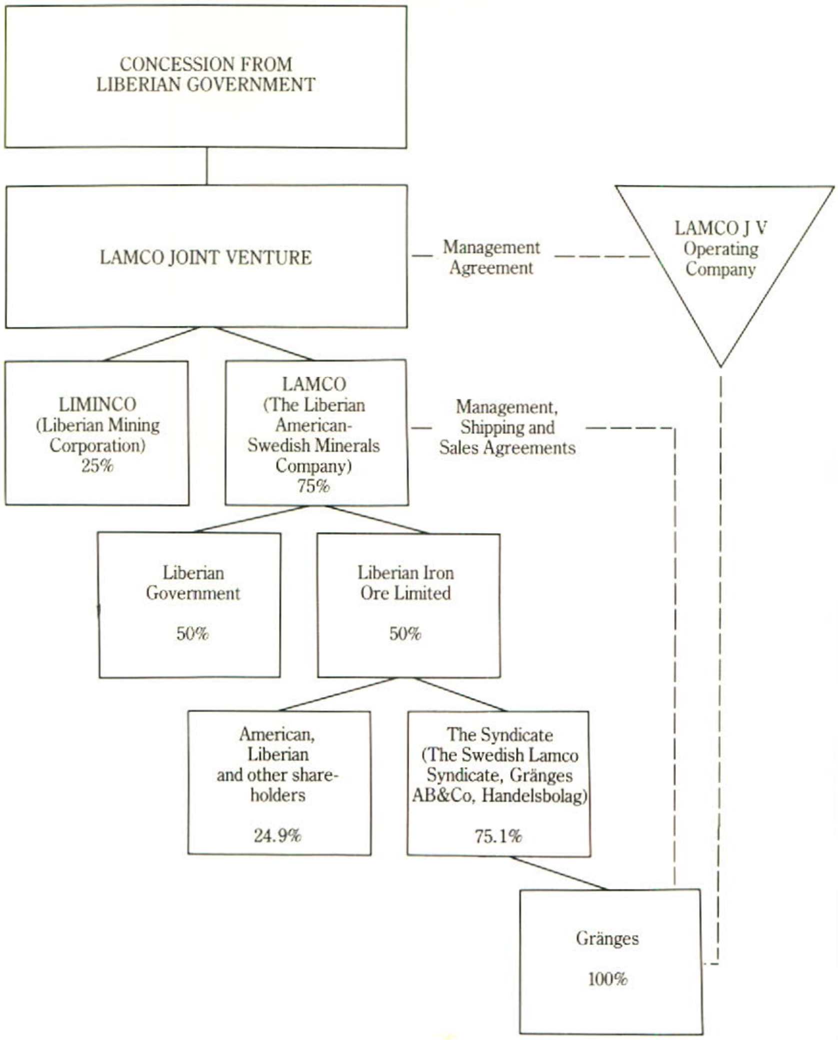
THE ANNUAL MEETING OF LIBERIAN IRON ORE LIMITED SHAREHOLDERS WILL BE HELD ON MAY 15, 1987, AT 12 O'CLOCK NOON AT THE OFFICE OF OGILVY, RENAULT, 1981 McGILL COLLEGE AVENUE, SUITE 1200, MONTREAL, QUEBEC, CANADA.

Contents

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 investment of more than $350,000,000 in the development of high grade iron ore deposits in the Nimba Mountain region of Liberia. The mine, and the modern mining community, is connected by a 167-mile railroad with the Liberian port of Buchanan. Ore loaded here is shipped to steel plants in Europe, North America and Japan.

Lamco Joint Venture Ownership Structure



GRÄNGES INTERNATIONAL MINING

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

OFFICER
Arne Dahlström – *President*

HEAD OFFICE
S-105 45 Stockholm, Sweden

LAMCO J V OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICER
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 1986 LIO earned interest and received dividends on these investments at a combined rate of return of 7.4% (6.9% – 1985) on an average investment of $17,831,426 ($11,974,528 – 1985). In addition, from December 2, 1985, LIO has received a fee for a guarantee issued in favour of Gränges AB and the Syndicate.

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, 1986, the unpaid dividends payable to LIO equivalent to the royalty accrued to the Government aggregated $31,999,422 ($33,753,603 – 1985). 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 June 11, 1986 LAMCO paid a dividend of $5,000,000 to LIO in respect of such unpaid dividends.

LIO had a net profit of $8,985,505 or $2.27 per share in 1986 compared with a net profit of $9,658 or $0.002 per share in 1985. The expenses for 1986 include a write-down of $76,119 ($4,046 – 1985) of LIO's portfolio of Canadian preferred shares because of declines in market prices for these shares. Canadian income taxes for 1986 amounted to $348,429 ($525,027 – 1985).

16.77% of the amounts borrowed by LAMCO to finance the redemption of its preferred stock in 1983 are secured by the pledge by LIO of term deposits. 23.53% of other indebtedness of LAMCO has been secured by a guarantee of LIO in respect of which LIO set aside a special reserve equal to the amount guaranteed. Due to loan repayments made by LAMCO during 1986, the time deposits so pledged and the special reserve for guarantee have been reduced by $1,844,700 and $1,402,825 respectively which amounts have been included in the computation of net profit, so that at December 31, 1986 such time deposits pledged amount to $1,455,300 and such special reserve amounts to $4,647,175. Any further repayments which may be made by LAMCO in respect of these loans will be applied first to LAMCO's indebtedness incurred to finance the said redemption of its preferred stock, and then to the repayment of certain other indebtedness of LAMCO, the repayment of which is secured by the guarantee. The amount of the time deposits pledged and of the special reserve will be reduced by the amount of the reduction in LIO's commitments and an amount equal to such reduction will be included in its net income.

On April 21, 1986 the Syndicate made an offer to purchase for cash at $5.70 Canadian the odd lots of shares held by the holders of 99 or less common shares of LIO who were shareholders of record at the close of business on January 31, 1986. The offer was made in an effort to reduce the administrative costs of LIO in servicing the large number of holders of odd lots of its common shares and to give such holders the opportunity to dispose of such shares without incurring brokerage or other costs disproportionate to the value of their holdings. The offer was extended three times and expired on August 22, 1986. As a result of the offer, the Syndicate acquired 9,572 common shares of LIO and owned an aggregate of 2,968,612 or 75.1% of the outstanding common shares of LIO on December 31, 1986. LIO has given to the Securities and Exchange Commission of the United States the appropriate notice of the suspension of LIO's duty to file reports with such Commission.

The ore bodies currently being mined by the LAMCO Joint Venture will be exhausted by the end of 1989. There are other proven iron ore reserves in the Western Area of the LAMCO Joint Venture's concession in Liberia 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 the obtaining of long-term commitments from purchasers in respect of deliveries of iron ore from the project.

March 1987

Board of Directors

Hans Werthén
Chairman
Chairman of AB Electrolux and Chairman of Gränges AB, Stockholm, Sweden

Bo Abrahamsson
Vice Chairman
Vice Chairman of Gränges AB, Stockholm, Sweden

Gösta Bystedt
Vice Chairman of AB Electrolux and President of Gränges AB, Stockholm, Sweden

Brock F. Clarke, Q.C.
Partner of the law firm of Ogilvy, Renault, Montreal, Quebec, Canada

Alan G. Thompson
Chairman of Brink, Hudson & Lefever Ltd., Vancouver, British Columbia, Canada

OFFICERS

Arne Dahlström
President

Ingemar Uussaar
Secretary-Treasurer

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

FOREIGN OFFICE
S-105 45, Stockholm, Sweden

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

INDEPENDENT ACCOUNTANTS
Price Waterhouse
Box 1702, S-111 87 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, 1985	nil	1.40	1.20
June 30, 1985	nil	3.30	3.00
September 30, 1985	nil	3.30	3.00
December 31, 1985	nil	3.00	3.00
March 31, 1986	nil	5.25	2.90
June 30, 1986	nil	5.50	2.75
September 30, 1986	nil	5.00	3.00
December 31, 1986	nil	5.00	3.50

LIO SHARES OUTSTANDING

	1986	1985
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders at December 31	3,002	3,326
located in: Liberia	2,370	2,372
U.S.A. and Canada	516	762
Other countries	116	192

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, 1986 and 1985 and the related statements of profit and deficit and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards in the United States of America 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, 1986 and 1985, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse
Stockholm, March 4, 1987

Balance Sheets

(Expressed in United States dollars)

	December 31 1986	1985
Assets		
CURRENT ASSETS		
Cash including time deposits of $15,163,300 ($12,920,000 in 1985)	$15,511,410	$13,046,541
LESS – Time deposits pledged to secure LAMCO borrowings (Note 3)	(1,455,300)	(3,300,000)
	14,056,110	9,746,541
Marketable securities, at market (Note 5)	5,042,888	2,062,012
Other receivables	100,575	97,022
Total current assets	19,199,573	11,905,575
Investment in LAMCO (Notes 1, 2 and 3)	1	1
	$19,199,574	$11,905,576
Liabilities and Capital		
CURRENT LIABILITIES		
Accounts payable	$ 115,695	$ 122,541
Unclaimed dividends	86,145	86,600
Canadian taxes payable (Note 4)		281,381
Total current liabilities	201,840	490,522
RESERVE FOR GUARANTEE (NOTE 3)	4,647,175	6,050,000
CAPITAL		
Common shares without nominal or par value:		
Authorized – unlimited		
Issued – 3,955,025 shares	23,486,671	23,486,671
Deficit	(9,136,112)	(18,121,617)
Total capital	14,350,559	5,365,054
Commitments and contingencies (Notes 1 and 3)		
	$19,199,574	$11,905,576

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 Deficit

(Expressed in United States dollars)

	Year ended December 31 1986	1985
Income (Note 6)	$ 6,416,430	$ 812,690
Expenses	330,021	278,005
Income before adjustments for the following items	6,086,409	534,685
Recovery of time deposits pledged to secure LAMCO borrowings (Note 3)	1,844,700	
Reduction of reserve for guarantee issued (Note 3)	1,402,825	
Proceeds of redemption of Series C preferred stock of LAMCO previously written off (Note 3)		6,050,000
Profit before appropriation and income taxes	9,333,934	6,584,685
Appropriation to reserve for guarantee (Note 3)		6,050,000
Income taxes (Note 4)	348,429	525,027
Net profit	8,985,505	9,658
Deficit at beginning of year	(18,121,617)	(18,131,275)
Deficit at end of year	($ 9,136,112)	($18,121,617)
Net profit per share	$ 2.27	$ 0.002

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

Statements of Changes in Financial Position

(Expressed in United States dollars)	Year ended December 31 1986	1985
Working Capital Provided:		
Net profit	$ 8,985,505	$ 9,658
Items not requiring the use of working capital:		
Appropriation to reserve for guarantee		6,050,000
Reduction of reserve for guarantee issued	(1,402,825)	
Increase in working capital provided by operations	$ 7,582,680	$ 6,059,658
Analysis of Changes in Working Capital:		
INCREASE IN CURRENT ASSETS:		
Cash	$ 4,309,569	$ 4,206,039
Marketable securities	2,980,876	2,062,012
Other receivables	3,553	32,647
	7,293,998	6,300,698
(INCREASE) DECREASE IN CURRENT LIABILITIES		
Accounts payable	6,846	(24,627)
Unclaimed dividends	455	51
Canadian taxes payable	281,381	(216,464)
	288,682	(241,040)
Increase in working capital	$ 7,582,680	$ 6,059,658

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(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 certain other securities 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 June 11, 1986, LAMCO paid a dividend of $5,000,000 to LIO in respect of the then unpaid dividends. As of December 31, 1986, the unpaid dividends payable to LIO equivalent to the royalty accrued to the Government aggregated $31,999,422 ($33,753,603 – 1985). Under the Concession Agreement, these dividends must be satisfied before dividends in equal amounts to the Class A and Class B common stockholders can be resumed.

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
Organisation and pre-operating expenses less accumulated amortisation	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 at January 1, 1982	$ 1

The following is a summary of LAMCO financial data:

FINANCIAL POSITION

	December 31 1986	1985
Current assets:		
Inventories of ore	$18,461,618	$14,935,274
Other	41,069,281	52,330,640
	59,530,899	67,265,914
Current liabilities:		
Guaranteed short-term debt	30,750,000	38,250,000
Other	14,341,769	6,102,094
	45,091,769	44,352,094
Working capital	14,439,130	22,913,820
Non-current assets	29,135,086	37,062,168
Non-current liabilities	(22,945,000)	(34,299,490)
Net assets	$20,629,216	$25,676,498

Statement of Profit

	For year ended December 31 1986	1985
Sales	$81,145,455	$96,528,867
Profit from operations	$ 9,807,436	$ 9,928,694
Net profit	$ 7,152,718	$ 7,163,905
Shipments in metric tons	5,677,320	6,446,002

The reports of the independent accountants on LAMCO for the years ended December 31, 1985 and December 31, 1986 were qualifed as to the ability of LAMCO to continue in its present form in view of its current financial condition.

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 refers to the Series C preferred stock redemption by LAMCO in 1985, in respect of which the gain of $6,050,000 was offset by a reserve in the same amount.

NOTE 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 has reflected the pledge as a reduction of its cash.

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

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

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

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

LIO and the other preferred stockholders renounced the dividends accruing between July 31, 1984 and December 2, 1985, amounting to $2,179,000 of which $512,569 was owed to LIO, simultaneously with and contingent upon LAMCO redeeming preferred stock, which redemption was effected on December 2, 1985 when the remaining $6,050,000 of Series C preferred stock held by LIO was redeemed. In consideration of Gränges AB and The Swedish Lamco Syndicate, 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 has been charged to income.

Accordingly, 16.77% of the amounts borrowed by LAMCO to finance the redemption of its preferred stock in 1983 are secured by the pledge by LIO of term deposits. 23.53% of other indebtedness of LAMCO has been secured by a guarantee of LIO in respect of which LIO set aside a special reserve equal to the amount guaranteed. Due to loan repayments made by LAMCO during 1986, the time deposits so pledged and the special reserve for guarantee have been reduced by $1,844,700 and $1,402,825 respectively which amounts have been included in the computation of net profit, so that at December 31, 1986 such time deposits pledged amounted to $1,455,300 and such special reserve amounted to $4,647,175. Any further repayments which may be made by LAMCO in respect of these loans will be applied first to LAMCO's indebtedness incurred to finance the said redemption of its preferred stock, and then to the repayment of certain other indebtedness of LAMCO, the repayment of which is secured by the guarantee. The amount of the time deposits pledged and of the special reserve will be reduced by the amount of the reduction in LIO's commitments and an amount equal to such reduction will be included in its net income.

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:

	1986	1985
Profit before appropriation and income taxes	$ 9,333,934	$ 6,584,685
Items not included in determination of taxable Canadian income:		
Dividends	(5,376,584)	(62,439)
Redemption by LAMCO of preferred stock previously written off		(6,050,000)
Recovery of time deposits pledged to secure LAMCO borrowings	(1,844,700)	
Reduction of reserve for guarantee	(1,402,825)	
Write-down of LIO's portfolio of Canadian preferred shares to market prices	76,119	4,046
Other	(7,247)	(8,051)
Taxable income (before capital gains on LAMCO redemption)	$ 778,697	$ 468,241
Taxes (47.80% in 1986 and 46.91% in 1985)	$ 372,217	$ 219,652
Tax on capital gains on redemption by LAMCO of preferred stock		305,375
Tax refund	(23,788)	
Income taxes provided	$ 348,429	$ 525,027

NOTE 5

MARKETABLE SECURITIES

The market value of the portfolio of high quality Canadian preferred shares listed on Canadian stock exchanges amounted to $5,042,888 (cost – $5,119,007) at December 31, 1986 and $2,062,012 (cost – $2,066,058) at December 31, 1985. The gross unrealized losses amounted to $76,119 and $4,046 at December 31, 1986 and December 31, 1985 respectively. 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 following:

	1986	1985
Dividend from LAMCO	$ 5,000,000	
Dividends on marketable securities	376,584	$ 62,439
Interest earned	962,330	743,949
Fee for guarantee issued	77,516	6,302
	$ 6,416,430	$ 812,690

Five-year Summary Statement of Profit (Loss)

(Expressed in thousand United States dollars, except for per share amounts)	Year ended December 31, 1986	1985	1984	1983	1982
Income	$ 6,416	$ 813	$ 887	$ 723	$ 575
Expenses	330	278	230	318	349
Income before adjustments for the following items	6,086	535	657	405	226
Write-down of investment in LAMCO					(35,482)
Proceeds of redemption of Series C preferred stock of LAMCO previously written off		6,050	550		
Recovery of time deposits pledged to secure LAMCO borrowings	1,845				
Reduction of reserve for guarantee issued	1,403				
Profit (loss) before appropriation and income taxes	9,334	6,585	1,207	405	(35,256)
Appropriation to reserve for guarantee		6,050			
Canadian income taxes	348	525	129	449	101
Net profit (loss)	$ 8,986	$ 10	$ 1,078	($ 44)	($35,357)
Net profit (loss) per share*	$ 2.27	$ 0.002	$ 0.27	($ 0.01)	($ 8.94)

*Based on 3,955,025 shares outstanding

Five-year Statement of (Deficit) Retained Earnings

(Expressed in thousand United States dollars)	Year ended December 31, 1986	1985	1984	1983	1982
Net profit (loss)	$ 8,986	$ 10	$ 1,078	($ 44)	($35,357)
(Deficit) retained earnings at beginning of year	(18,121)	(18,131)	(19,209)	(19,165)	16,192
(Deficit) at end of the year	($ 9,135)	($18,121)	($18,131)	($19,209)	($19,165)

LIBERIAN IRON ORE LIMITED

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