LIBERIAN IRON ORE LIMITED

Annual Report 1981

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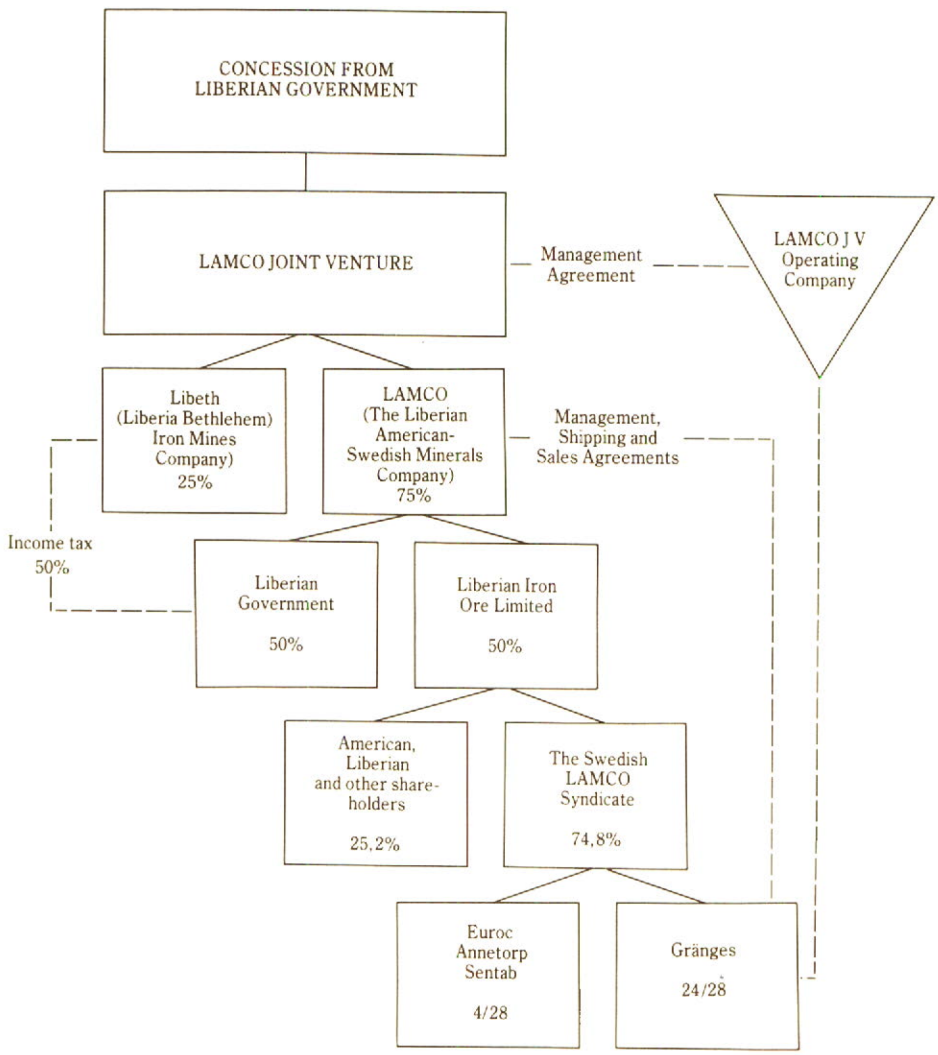
THE ANNUAL MEETING OF LIO SHAREHOLDERS WILL BE HELD ON JUNE 11, 1982, AT 2:00 PM AT THE MONTREAL AIRPORT HILTON HOTEL INTERNATIONAL, DORVAL, QUEBEC, CANADA.

CONTENTS

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 Bethlehem 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 165-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.

OFFICERS
TRYGGVE ANGEL *President*

ARNE DAHLSTRÖM *Executive Vice President*

HEAD OFFICE
P.O. Box 16316
S-103 26 Stockholm, Sweden

LAMCO J.V. OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICER
JOHN L. PERVOLA *General Manager*

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

LETTER TO THE SHAREHOLDERS

As a result of the operations of LAMCO, LIO incurred a net loss in 1981 after the change in equity in the undistributed earnings of LAMCO attributable to Common Stock, of $7,6 million or $1.93 per share, compared with a net loss of $0.3 million or $0.08 per share, in 1980. Excluding adjustments for equity in LAMCO, LIO had a profit of $43,000 or $0.01 per share, in 1981 compared with a loss of $0.1 million, or $0.02 per share, in 1980.

In 1981 LIO received no cash dividends from LAMCO, and the only cash received consisted of interest on cash on deposit with banks. Dividends by LIO have been suspended since 1978 and are not presently expected to be resumed in 1982.

Suffering from the continuing recession in the iron ore market LAMCO sustained a net loss of $18.0 million in 1981; in 1980 the net loss was $3.2 million.

The European steel industry, LAMCO's main market, has experienced severe economic problems in recent years, which have in turn adversely affected the iron ore suppliers. Ore price increases in 1979 and 1980, after two years of declining prices, were inadequate to meet the increased costs of production and shipping. For LAMCO the situation was aggravated by a 4% price decrease fob Buchanan in 1981.

Shipments amounted to 7.5 million tons in 1981, the same quantity as in 1980. Total sales revenues decreased from $110.9 million in 1980 to $109.8 million in 1981. Costs of production continued to escalate due to fuel oil price increases, higher labor costs and general inflation. LAMCO's working capital was unchanged during 1981 compared with an increase of $15.2 million in 1980.

LAMCO's Board of Directors did not declare any dividends on Preferred Stock or Common Stock in respect of 1981. Furthermore, the holders of LAMCO's Series A, B and C Preferred Stock have agreed to postpone until 1982 scheduled redemptions aggregating $14.6 million previously due in 1977–1981. As of December 31, 1981 the unpaid cumulative dividends on LAMCO's Series A, B and C preferred stock aggregated $12.4 million. In addition, at December 31, 1981, dividends on the LAMCO Class B Common Stock held by LIO equivalent to the royalty accrued to the Government of Liberia aggregating $18.3 million had not been declared.

The Joint Venture has continued the austerity program to reduce cash outflow, which began in 1977. In January 1982, the manager of the Joint Venture presented a radical program for productivity improvement and cost reduction. Discussions with the Liberian Government have started regarding the implementation of this program.

In early 1982, LAMCO negotiated new ore prices for shipments to some significant customers under 1982 contracts which amounted to about 22% fob Buchanan over the 1981 price level. It is anticipated that similar pricing agreements will be concluded with LAMCO's other customers. As a result of the price increase and the ongoing cost saving program LAMCO's financial situation is expected to improve in 1982.

March, 1982

H Werthén

HANS WERTHÉN
Chairman

BOARD OF DIRECTORS

HANS WERTHÉN *Chairman*	*Chairman of AB Electrolux, and Chairman of Gränges AB, Stockholm, Sweden*
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OLLE WIJKSTRÖM *President*	*President of Instoria Inc. New York, USA*

OFFICER
G. E. JONES
Secretary-Treasurer

HEAD OFFICE
Douglas Building, University Avenue,
Charlottetown, Prince Edward Island, Canada

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

COUNSEL
OGLIVY, RENAULT,
The Royal Bank Building, 1 Place Ville Marie, Montreal, Quebec, Canada H3B1Z7

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

CITIBANK, N.A.,
Monrovia, Liberia

THE TRUST COMPANY OF NEW JERSEY,
Jersey City, N. J., U.S.A.

BOARD OF DIRECTORS

MARCUS WALLENBERG
Chairman Emeritus

BO ABRAHAMSSON *Chairman*	*President of Gränges AB, Stockholm, Sweden*
TRYGGVE ANGEL	*President of Gränges International Mining, Stockholm, Sweden*
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ALVIN JONES	*Minister of Finance of the Republic of Liberia, Monrovia, Liberia*
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STEN LINDH	*President of Industri AB Euroc, and Chief Executive Officer of the Euroc Group, Malmö, Sweden*
ISAAC NYEPLU	*Minister of Justice of the Republic of Liberia, Monrovia, Liberia*
BYRON TARR	*Minister of Planning and Economic Affairs of the Republic of Liberia, Monrovia, Liberia*
HANS WERTHÉN	*Chairman of AB Electrolux, and Chairman of Gränges AB, Stockholm, Sweden*
OLLE WIJKSTRÖM	*President of Instoria Inc., New York, USA*

OFFICERS
ARNE DAHLSTRÖM
President

INGEMAR UUSSAAR
Secretary-Treasurer

HEAD OFFICE
P.O. Box 69,
Monrovia, Liberia

FOREIGN OFFICE
C/O GRÄNGES INTERNATIONAL MINING,
P.O. Box 163 16,
S-103 26 Stockholm, Sweden

COUNSEL
SULLIVAN & CROMWELL,
125 Broad Streeet, New York, N.Y. 10004, U.S.A.

INDEPENDENT ACCOUNTANTS
PRICE WATERHOUSE,
153 East 53rd Street, New York, N.Y. 10022, U.S.A.

OPERATING AND FINANCIAL SUMMARIES

	1981	1980
LAMCO JOINT VENTURE		
Production of finished ore products (metric tons)	10,500,000	10,100,000
Shipments during the year (metric tons)	11,500,000	9,300,000
Project expenditures:		
Investments in property and equipment	$ 6,800,000	$ 9,400,000
Exploration and development costs deferred		$ 64,000
LAMCO		
Sales – metric tons	7,500,000	7,500,000
Sales – amount	$109,799,000	$110,875,000
Profit (loss) from operations	($ 9,863,000)	$ 1,974,000
Net loss	($ 17,994,000)	($ 3,165,000)
LIO		
Interest income	$ 727,000	$ 564,000
Profit (loss) before adjustment for equity in LAMCO (per share $0.01 and ($0.02))	$ 43,000	($ 74,000)
Change in equity in the undistributed earnings of LAMCO	($ 7,680,000)	($ 244,000)
Net (loss) (per share ($1.93) and ($0.08))	($ 7,637,000)	($ 318,000)
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders	3,763	3,872
located in: Liberia	2,526	2,526
U.S.A. and Canada	1,037	1,143
Other countries	200	203

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 in 1979, 1980 or 1981.

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 10%.

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, 1980	nil	7.00	8.00
June 30, 1980	nil	2.55	6.25
September 30, 1980	nil	4.00	4.70
December 31, 1980	nil	3.00	3.85
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

1981 IN REVIEW

IRON ORE AND STEEL MARKETS AND LAMCO SALES

Following considerable increases in both 1978 and 1979 the world production of crude steel dropped from 747 million tons in 1979 to 717 million tons in 1980 and further to 708 million tons in 1981. The Japanese steel industry was particularly hit by the recession, reducing the production for the year 1981 to 102 million tons compared with 111 million tons in 1980. The steel industry within EEC maintained almost the same production 1981 as the preceeding year, 128 million tons compared with 125 million tons. During 1981 the steel production within EEC was firmly controlled by restrictive measures, including production quotas, which were decided by the ministers of the EEC Commission. By the establishment of production quotas the EEC Commission has succeeded in its efforts to raise the steel prices.

The American steel production increased to 109 million tons in 1981 compared with 102 million tons in 1980. The production within the Comecon market remained at the 1980 level. Several developing countries earlier rapidly expanding, were affected by the detoriating market and recorded a decrease in the steel production in 1981 compared with 1980.

At present most ore producers work far below their capacity. The aggregated unused export capacity of the fifteen largest ore exporters is close to 70 million tons, and their stocks of ore amounts to some 50 million tons.

LAMCO's shipments during 1981 and 1980 reached 7.5 million tons respectively compared with 8.1 million tons in 1979. However, because of a 4%decrease in sales prices fob Buchanan for 1981 contracts, LAMCO's sales revenues decreased from 1980.

The negotiations regarding the ore prices for 1982 have led to agreements between major sellers and buyers in Western Europe. LAMCO achieved a 22%price increase for sinter fines fob Buchanan.

LAMCO JOINT VENTURE PRODUCTION AND SHIPMENTS

In 1981 the Joint Venture mined 12.5 million tons of crude ore resulting in 10.5 million tons of finished products. The corresponding figures in 1980 were 12.1 and 10.1 million tons respectively. The production consisted of 9.9 million tons of washed fines, 0.4 million tons of washed lumpy and 0.2 million tons of high grade concentrate for direct reduction purpose.

The crude ore was extracted from the Nimba Main Orebody and Mt Gbahm, and in addition production in the Tokadeh mine was recommenced in July.

LAMCO's shipments in 1981 included 6,639,000 tons of washed fines (6,931,000 tons in 1980), 634,000 tons of washed lumpy (561,000 tons), 14,500 tons of pellets (17,000 tons). In addition shipments of high grade concentrate to Nigeria Delta Steel Co, began in May and reached 164,000 tons for the year.

The Joint Venture plans to keep its production level of crude ore at 12.5 million tons in 1982 rendering 10.5 million tons of finished products.

OPERATING COSTS

The Joint Venture had net costs of production of $146.1 million in 1981 compared with $135.2 million in 1980. The increase was to some extent caused by higher production of finished products (10.5 million tons in 1981 compared with 10.1 million tons in 1980). The major reasons for the increased production costs were, however, increased prises of fuel, lubricants and other materials and supplies amounting to $7.6 million (11.6%), increased salaries, wages and other personnel expenses $4.7 million (10.7%).

EXPLORATION AND IRON ORE RESERVES

On the basis of a rock stability and pit optimization study of the Nimba Main Orebody carried out in 1974 and revised in 1979 in light of current ore prices and costs of waste stripping, the Manager has estimated the total remaining proven and mineable ore reserves in the Nimba Range as of December 31, 1981 at 60 million tons having an average grade of 62% Fe (dry). These reserves are estimated to be sufficient for the continuation of production of crude ore at the rate of 12 million tons per year through 1987.

As a part of its long range planning the Joint Venture has continued exploration of and mine planning for ore deposits within the western part of the Nimba Concession Area. The geological reserves of proven soft and medium hard ore in this area (Mts Tokadeh, Gangra, Yuelliton and Beeton) as of December 31, 1981 are estimated by the Manager at 608 million tons having an average grade of 50.8% Fe (dry). Preliminary estimates indicate that out of the geological reserves a combined plant feed reserve of 398 million tons having an average grade of 53.7% Fe (dry) can be obtained. Adjustment has thereby been made for losses of tonnage during mining operations as well as dilution with waste corresponding to a lowering of the Fe content by 1%. Should the Joint Venture decide to mine these ore reserves, this would give the Joint Venture an additional operational life of some 20 years maintaining the present level of production of finished products.

CAPITAL EXPENDITURES

The Joint Venture's capital expenditures are being maintained at a level necessary to preserve the efficient operation of the mining and processing facilities.

A total of $6.8 million was spent on property, plant and equipment in 1981, compared to $9.4 million in 1980.

The Tokadeh mine was reopened in the middle of the year. The capital expenditures required for the reopening of this mine amounted, at the end of 1981, to $3.1 million out of which $1.9 million was spent in 1981. Another $0.9 million is estimated to be spent in 1982 bringing the total up to $4.0 million.

Modifications of the shiploading facilities required for the loading of the Nimba Concentrate being sold to Delta Steel in Nigeria caused capital expenditures of $1.1 million in 1981. Another $0.2 million will have to be spent in 1982.

Construction of new workers' houses, housing renovations and improvement in work site conditions amounted to $0.5 million.

Capital expenditures for the Joint Venture in 1982 are estimated at $4.3 million.

COMMERCIAL TRAFFIC

Because of the poor market conditions for logs and sawn timber the Commercial Traffic on the Joint Venture's railroad decreased drastically to 1,608 carloads in 1981, compared with 3,119 carloads in 1980. Related revenues amounted to $0.7 million in 1981 compared with $1.5 million in 1980.

The traffic in the commercial port totalled 255,000 metric tons during 1981, a reduction by 30,000 metric tons compared with the year before. The traffic for third parties decreased from 186,000 metric tons in 1980 to 149,000 metric tons in 1981. Increased shipments of rubber and of logs transported by road to Buchanan compensated somewhat for the decreased log quantities arriving by the railroad. The revenues of the commercial port decreased by $0.7 million to $2.4 million.

EMPLOYEES AND LABOR RELATIONS

At the end of 1981 the total number of employees in the Joint Venture amounted to 3,916 compared with 3,983 at the end of the preceding year. The number of foreign employees has since 1977 developed as follows: 521 (1977), 477 (1978), 377 (1979), 309 (1980) and 337 (1981).

Negotiations regarding a new contract with Lamco Mine Workers' Union are expected to be resumed in 1982.

TRAINING AND SCHOLARSHIP PROGRAMS

During 1981 training activities continued at a high level with emphasis on advanced programs in line with the Liberianization objectives.

A total of 414 Liberian employees participated in different training and development programs. In order to secure candidates for the advanced training program, a new apprentice program was started. A total of 66 overseas scholarships and 298 local scholarships were administered under the Joint Venture's program. The railroad training continued in cooperation with the Swedish State Railways.

Repeated safety inspections were carried out in the plants and on the worksites. Safety meetings were held throughout the Joint Venture. The inspection and accident reports reflect a steadily improving working environment.

HOUSING AND MEDICAL CARE

The Joint Venture provides housing for all employees in the Yekepa area. At Buchanan, company housing is only provided for senior staff, since ordinary housing facilities are available in the Buchanan municipality for other employees; these latter employees are paid adequate housing allowances by the Joint Venture.

The Own Your Own House project scheme in Buchanan for employees of the Joint Venture was completed with 63 houses in the middle of the year. The Joint Venture provided all infrastructure at a total cost of $0.8 million. Another $0.8 million was financed by the Joint Venture for construction of the houses. This amount will be repaid by the house owners over a period of 15 years.

The Joint Venture's two hospitals, with 120 and 150 beds respectively, continued to provide high standard medical care to employees and many outsiders.

TRANSPORTATION OF GUINEAN ORE

In 1976, the Joint Venture and Mifergui-Nimba Co., a Guinean mixed company, entered into a basic agreement setting forth the general principles under which the Joint Venture will agree to transport, handle and load ore from a new mine to be constructed in a part of the Nimba Range of mountains located in the Republic of Guinea, some 20 kilometers from the Joint Venture's mine in Liberia. A further agreement was reached in March, 1981 on the principles to be applied in calculating the price the Joint Venture will charge Mifergui-Nimba Co. for its services.

In addition to the Government of the Republic of Guinea, the shareholders of Mifergui-Nimba Co. include the governments of Nigeria, Liberia, Libya and Roumania, Sonarem of Algeria, MKS of Yugoslavia, Mifergui Japan Corporation, INI and Corei of Spain and Solmer and Usinor of France. The Joint Venture has been informed that the United States Steel Corporation and Mifergui-Nimba Co. signed an agreement in principle in October, 1981 which may lead to a final agreement in 1982, providing for the acquisition by U.S. Steel of a 5% equity interest in Mifergi-Nimba Co. and the appointment of U.S. Steel as the engineer and manager of the Mifergui project.

The Joint Venture understands that the shareholders presently intend to consume all the ore produced by Mifergui-Nimba Co. in steel plants they already own or plan to construct before the new project goes into production.

Since March, 1981, discussions between the Joint Venture and Mifergui-Nimba Co. have focussed primarily on possible further cooperation between the two companies which might involve, among other things, the purchasing and processing by the Joint Venture of crude iron ore to be mined by Mifergui-Nimba Co.

The Joint Venture cannot predict at this time whether agreement will be reached on any such further cooperation or whether Mifergui-Nimba Co. will proceed with the project.

PROPOSED STEEL PLANT

During 1979 the Joint Venture commenced negotiations with a newly-formed corporation which is studying a proposal to erect a steel plant near the Joint Venture's facilities at Buchanan, Liberia. In the fall of 1980, it was annonced by the National Investment Corporation of Liberia, a governmental agency, that an understanding had been reached between this corporation and the Government.

LAMCO has expressed willingness to negotiate an ore sales contract covering a period of several years. No negotiations have, however, taken place in 1981, and the Joint Venture cannot predict at this time whether any plant will be built, or not.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS OF LIBERIAN IRON ORE LIMITED

We have examined the accompanying balance sheet of Liberian Iron Ore Limited as of December 31, 1981 and 1980 and the related statements of loss, of retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with auditing standards generally accepted 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 present fairly the financial position of Liberian Iron Ore Limited at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, in conformity with accounting principles generally accepted in Canada consistently applied.

PRICE WATERHOUSE
New York, March 29, 1982

COMMENT ON CANADA – UNITED STATES REPORTING STANDARDS

The above opinion is expressed in accordance with standards of reporting established and generally accepted in Canada. We have also issued a report prepared in accordance with United States reporting standards for purposes of filing with the United States Securities and Exchange Commission. Our opinion on the 1981 financial statements for purposes of that filing was qualified as being subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty, as described in Note 21, to the financial statements, relating to the Company's ability to realize its investment in Liberian American-Swedish Minerals Company, been known.

PRICE WATERHOUSE
New York, March 29, 1982

STATEMENT OF LOSS

(Expressed in thousand United States dollars, except for per share amounts)	Year ended December 31, 1981	1980	1979
Interest income	$ 727	$ 564	$ 452
Expenses (Notes 13, 16 and 20)	684	638	983
Profit (loss) 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	43	(74)	(531)
Undeclared and unpaid current dividends on Series C preferred stock	619	619	619
Change in equity in the undistributed earnings of LAMCO attributable to common stock (Note 15)	(8,299)	(863)	(15,564)
Net loss	($7,637)	($ 318)	($15,476)
Net loss per share	($ 1.93)	($0.08)	($ 3.91)

The accompanying financial statements of Liberian Iron Ore Limited have been approved by its Board of Directors.

HANS WERTHÉN
OLLE WIJKSTRÖM

BALANCE SHEET

(Expressed in thousand United States dollars)	December 31, 1981	1980*
ASSETS		
CURRENT ASSETS		
Cash, including time deposits of $4,274 ($4,012 – 1980)	$ 4,421	$ 4,110
Accrued interest receivable	33	10
Total current assets	4,454	4,120
INVESTMENT IN LAMCO (Notes 1, 2, 3, 4 and 15)		
6.25% Series C preferred stock, at cost plus undeclared and unpaid cumulative dividends	12,453	11,834
Class B common stock, at cost adjusted for changes in equity in undistributed earnings of LAMCO attributable to common stock	10,658	18,957
Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation	12,856	12,856
	35,967	43,647
ORGANIZATION AND PREOPERATING EXPENSES		
less accumulated amortization of $461 ($432 – 1980) (Note 1)	153	182
	$40,574	$47,949
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES		
Accounts payable	$ 92	$ 119
Canadian taxes payable	164	30
Total current liabilities	256	149
Deferred Liberian taxes (Note 13)	638	483
CAPITAL		
Common shares without nominal or par value:		
Authorized – 5,000,000 shares		
Issued – 3,955,025 shares	23,487	23,487
Equity in capital in excess of par value of LAMCO	2,250	2,250
Retained earnings, per accompanying statement	13,943	21,580
	39,680	47,317
	$40,574	$47,949

*Reclassified for comparative purposes

STATEMENT OF CHANGES IN FINANCIAL POSITION

(Expressed in thousand United States dollars)	Year ended December 31, 1981	1980	1979*
WORKING CAPITAL PROVIDED (USED FOR):			
Net loss	($ 7,637)	($318)	($15,476)
Charges (credits) not using or providing current working capital:			
Amortization of organization and preoperating expenses	29	30	25
Change in equity in the undistributed earnings of LAMCO attributable to common stock	8,299	863	15,564
Deferred taxes	155	135	348
Increase in unpaid cumulative dividends on Series C preferred stock	(619)	(619)	(619)
Increase (decrease) in working capital	$ 227	$ 91	($ 158)
COMPOSITION OF INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash	$ 311	($ 12)	$ 63
Accrued interest receivable	23	(7)	(30)
Accounts payable	(107)	110	(191)
Dividends declared and unpaid			
Increase (decrease) in working capital	$ 227	$ 91	($ 158)

STATEMENT OF RETAINED EARNINGS

(Expressed in thousand United States dollars)	Year ended December 31, 1981	1980	1979*
Net loss per accompanying statement of loss	($ 7,637)	($ 318)	($15,476)
Retained earnings at beginning of year	21,580	21,898	37,374
Retained earnings at the end of year	$13,943	$21,580	$21,898
Represented by:			
Accumulated profits before equity in undistributed earnings of LAMCO	$ 3,982	$ 3,939	$ 4,013
Undeclared and unpaid dividends on Series C preferred stock	2,553	1,934	1,315
Equity in undistributed earnings of LAMCO attributable to common stock	7,408	15,707	16,570
	$13,943	$21,580	$21,898

* Reclassified for comparative purposes

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE STOCKHOLDERS OF THE LIBERIAN AMERICAN-SWEDISH MINERALS COMPANY

We have examined the balance sheet of The Liberian American- Swedish Minerals Company (LAMCO) as of December 31, 1981 and 1980 and the related statements of loss and of changes in financial position for each of the three years in the period ended December 31, 1981. 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.

As shown in the financial statements, LAMCO incurred a net loss of $17,994,000 during the year ended December 31, 1981. As of that date LAMCO had postponed preferred stock redemptions of $14,577,000 and had undeclared and unpaid cumulative preferred stock dividends amounting to $12,354,000 and equalizing dividends due to LIO of $18,308,000.

As described in Management's Discussion and Analysis of Financial Condition and Results of Operations, the continuation of LAMCO as a going concern in the near-term future, and its ability to continue to support the LAMCO Joint Venture, is dependent upon the continued willingness of third parties to guarantee its short-term borrowings and capital financing credits and on its maintaining ore shipments at a level sufficient to generate the accounts receivable necessary to permit continued factoring at current levels. While LAMCO management has secured certain commitments from third-party guarantors during 1982, it is not possible to determine if the amount of such guarantees will be sufficient. Additionally, it is not possible at this time to predict whether LAMCO will be able to maintain revenues from ore shipments at current levels.

The ability of LAMCO to continue on a longer-term basis is dependent either on improvement in the iron ore market substantial enough and soon enough to attract the significant amounts of investment required for the development and exploitation of LAMCO's proven iron ore reserves in the Western Area or on the possible utilization of LAMCO's assets or reserves in conjunction with those of other parties.

LAMCO has prepared its December 31, 1981 financial statements on the basis of accounting principles applicable to LAMCO's continuation as a going concern. Accordingly, they do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should LAMCO be unable to continue existence.

In our opinion, subject to the effect, if any, on the 1981 financial statements of such adjustments as might have been required had the outcome of the uncertainties referred to in the preceding paragraphs been known, the financial statements examined by us present fairly the financial position of LAMCO at December 31, 1981 and 1980, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE
New York, March 29, 1982

STATEMENT OF LOSS

(INCLUDING LAMCO'S SHARE OF THE COSTS OF PRODUCTION OF THE LAMCO JOINT VENTURE)

(Expressed in thousand United States dollars) (Notes 2 and 5)	Year ended December 31, 1981	1980	1979
Sales	$109,799	$110,875	$104,885
Cost of sales (Note 6)	111,389	101,127	114,017
Gross profit (loss)	(1,590)	9,748	(9,132)
Selling expenses	1,835	1,847	1,696
General and administrative expenses	2,046	1,492	2,013
Royalty to Government of Liberia (Note 2)	4,392	4,435	4,195
Profit (loss) from operations	(9,863)	1,974	(17,036)
Provision for loss on pellet plant (Note 8)			9,700
Financing charges (net):			
Interest expense (Note 10)	8,131	5,455	5,159
Exchange (gains) losses, including provision for unrealized losses of $425 in 1979 (Notes 1 and 10)		(316)	431
Net loss	($17,994)	($ 3,165)	($ 32,326)

BALANCE SHEET

(INCLUDING LAMCO'S UNDIVIDED 75% SHARE OF THE ASSETS AND LIABILITIES OF THE LAMCO JOINT VENTURE)

(Expressed in thousand United States dollars)

	December 31, 1981	1980*
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing deposits, 1980–$1,750)	$ 1,555	$ 3,826
Cash in escrow (Note 18)		330
Accounts receivable:		
Trade	14,843	7,588
Other (Net of reserve 1981–$824; 1980–$593)	3,747	3,534
Inventories (Notes 1 and 6):		
Processed ore	27,602	23,971
Mined ore and ore in process	1,623	1,052
Materials and supplies (Net of reserve 1981–$2,699; 1980–$2,528)	14,778	14,769
Prepaid expenses	265	281
Total current assets	64,413	55,351
LONG TERM NOTES RECEIVABLE		
(Note 7)	523	
PROPERTY AND EQUIPMENT		
in concession areas, at cost (Notes 1 and 8):		
Railroad	46,886	46,886
Harbor	26,194	26,129
Roads and airstrips	6,447	6,447
Buildings	34,914	34,160
Rolling stock	13,647	13,565
Special purpose structures, machinery and equipment	81,501	81,081
Motor vehicles, boats and heavy-duty equipment	36,056	33,745
	245,645	242,013
Less accumulated depreciation	(176,837)	(159,565)
	68,808	82,448
Construction in progress	1,888	3,879
	70,696	86,327
EXPLORATION AND DEVELOPMENT COSTS, INTEREST DURING PREOPERATING PERIOD AND MINING CONCESSION,		
less accumulated amortization in 1981–$28,485; 1980–$26,498 (Notes 1 and 9)	8,014	10,001
Total assets	$143,646	$151,679

* Reclassified for comparative purposes

(Expressed in thousand United States dollars)

LIABILITIES and CAPITAL

	December 31, 1981	1980*
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 10)	$ 3,078	$ 2,764
Short-term debt and bank overdrafts (Note 10)	32,155	25,750
Trade accounts payable	4,781	4,698
Accrued liabilities (Note 12)	10,383	8,257
Accrued royalty (Note 2)	1,348	1,005
Accrued interest	528	745
Total current liabilities	52,273	43,219
LONG-TERM PENSION OBLIGATIONS (Notes 1 and 11)	10,383	8,391
LONG-TERM DEBT (Note 10)	4,834	5,919
REDEEMABLE PREFERRED STOCK		
$6.25%, $100 par value-authorized and issued (Notes 2, 4 and 15):		
Series A– 23,770 shares	2,377	2,377
Series B–356,640 shares	35,664	35,664
Series C– 99,000 shares	9,900	9,900
	47,941	47,941
CAPITAL		
Common stock $1 par value – authorized and issued:		
Class A and Class B–1,000,000 shares of each issue (Note 3)	2,000	2,000
Capital in excess of par value	4,500	4,500
Capital obligation, noninterest-bearing, payable only in the event of liquidation	12,856	12,856
Reserve for concession development and other corporate purposes (Note 14)	8,859	26,853
	28,215	46,209
CONTRACTUAL COMMITMENTS – CONTINGENCIES (Notes 18 and 22)		
Total liabilities and capital	$143,646	$151,679

* Reclassified for comparative purposes

STATEMENT OF CHANGES IN FINANCIAL POSITION

(INCLUDING LAMCO'S UNDIVIDED 75% SHARE OF THE ASSETS AND LIABILITIES OF THE LAMCO JOINT VENTURE)

(Expressed in thousand United States dollars)	Year ended December 31, 1981	1980	1979
WORKING CAPITAL PROVIDED BY (USED FOR):			
Net loss	($17,994)	($ 3,165)	($32,326)
Charges not requiring use of working capital:			
Depreciation and amortization	21,960	20,929	20,613
Increase in long-term pension obligations	1,992	1,209	1,718
Net book value of pellet plant written off			9,700
Working capital provided by (used for) operations	5,958	18,973	(295)
Reduction of long-term loans (net of current year's exchange adjustments)	(3,446)	(3,267)	(18,262)
Additions to property and equipment (net)	(4,343)	(5,176)	(7,564)
Exploration cost capitalized		(48)	(684)
Proceeds from capital financing credits	2,362	4,754	3,763
Long term notes receivable from employees	(523)		
Increase (decrease) in working capital	$ 8	$15,236	($23,042)
COMPOSITION OF INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash	($ 2,601)	($ 3,533)	($ 2,959)
Accounts receivable	7,468	(6,782)	(3,198)
Inventories	4,211	11,416	(9,139)
Prepaid expenses	(16)	264	(83)
Increase (decrease) in current assets	9,062	1,365	(15,379)
Long-term debt (current maturities)	314	(15,610)	1,569
Short-term debt	6,405	6,000	
Accounts payable and accrued liabilities	2,209	(4,029)	6,430
Accrued royalty	343	(38)	40
Accrued interest	(217)	(194)	(376)
Increase (decrease) in current liabilities	9,054	13,871	7,663
Increase (decrease) in working capital	$ 8	$15,236	($23,042)

NOTES TO THE FINANCIAL STATEMENTS OF LIO AND LAMCO

NOTE 1

STATEMENT OF ACCOUNTING POLICIES

LIO: Investment in LAMCO: Liberian Iron Ore Limited (LIO) owns 50% of the common stock of The Liberian American-Swedish Minerals Company (LAMCO) and accounts for its investment under the equity method (Notes 2 and 15).

Organization and preoperating expenses: These expenses are being amortized on a unit-of-production basis over proven ore reserves of the LAMCO Joint Venture.

LAMCO: Investment in the LAMCO Joint Venture: LAMCO includes in its financial statements its undivided 75% share of the assets and liabilities of the LAMCO Joint Venture. Current operating costs of the Joint Venture are shared in proportion to the production taken (Notes 2 and 5).

Inventories: Processed ore, mined ore, and ore in process are stated at the lower of average production cost or market with costs being determined on the first-in, first-out basis. Materials and supplies are stated at average cost less provision for obsolescence.

Property and equipment and related depreciation: Depreciation is provided on a straight-line basis over the estimated service or economic lives of the properties. Interest costs applicable to major projects are deferred during the construction period and are amortized over the estimated service or economic lives of the related properties. Maintenance and repairs are charged to cost of production; renewals or betterments increasing the capacity or the value of the assets are charged to property and equipment accounts. The cost of assets sold or scrapped and the related accumulated depreciation are eliminated from property and equipment accounts. Gains or losses on disposals are taken into income.

Exploration and development: These costs are deferred when they relate to ore reserves where commercial mining appears possible but has not yet begun. Deferred costs are amortized principally on a unit-of-production basis over the proven reserves of the applicable ore body. During 1981, no exploration and development costs were incurred. Costs incurred in connection with development of an operating mine are charged to production currently.

Translation of foreign currency liabilities: Exchange gains and losses attributable to repayments and translation adjustments arising from obligations payable in currencies other than U.S. dollars are included in the determination of results of operations for the year in which the rate changes.

Pension plans: Obligations under the current defined benefit plan for Liberian employees are provided by accruals and include amounts for current and prior service and interest on amounts accrued to date. No amounts pertaining to the Liberian plan are funded. Other employees are covered by defined contribution plans for which annual payments are made to insurance institutions. All pension costs are charged to production.

NOTE 2

CONCESSION AGREEMENT

LAMCO participates with Liberia Bethlehem Iron Mines Company (LIBETH), a wholly owned subsidiary of Bethlehem Steel Corporation, in a joint venture to develop and mine iron ore deposits in Liberia under a concession granted by the Government of the Republic of Liberia (Government) which expires on November 18, 2023 (Note 5).

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 the required dividends and then to Liberian Iron Ore Limited (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 3.5 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 (Note 15).

NOTE 3

COMMON STOCK

LAMCO is incorporated under the laws of the Republic of Liberia and its accounts are maintained in U.S. dollars. The Class A common stock of LAMCO is held by the Government and the Class B common stock is held by LIO. The Class A common stockholder elects five and the Class B common stockholder elects six of LAMCO's eleven directors. In addition, whenever one year's dividends on any series of preferred stock is in arrears, the holders of such series are entitled to elect one additional director. The holders of the preferred stock have waived this right until the 1982 LAMCO annual stockholders' meeting.

NOTE 4

REDEEMABLE PREFERRED STOCK

Among the provisions of LAMCO's Certificate of Incorporation governing the Series A preferred stock are:

1. Holders of Series A preferred stock are entitled to cumulative annual cash dividends of $6.25 per share.
2. The Series A preferred stock is to be redeemed pursuant to a schedule which provides for the redemption, at $100 per share plus accrued dividends, of 5,960 shares annually in each of the years 1977 through 1979 and of the remaining 5,890 shares in 1980. LAMCO also has the option to redeem shares of Series A preferred stock at any time at $100 per share plus accrued dividends.
3. The Series A preferred stock has priority over the Series B and Series C preferred stock and the Class A and Class B common stock with respect to the payment of dividends and the distribution of assets in the event of liquidation.

Among the provisions of LAMCO's Certificate of Incorporation governing the Series B and Series C preferred stock are:

1. Holders of Series B and Series C preferred stock are entitled to cumulative annual cash dividends of $6.25 per share.
2. The Series B and 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 20,000 shares of Series B preferred stock and 5,500 shares of Series C preferred stock annually in each of the years 1977 through 1984 and of the remaining 196,640 shares of Series B preferred stock and 60,500 shares of Series C preferred stock in 1985. In addition, LAMCO has the option to redeem shares of Series B and Series C preferred stock at any time at $100 per share plus accrued dividends.
3. The Series B preferred stock has priority over the Series C preferred stock and the Class A and Class B common stock, and 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.

The Series A and B preferred stock is held by The Swedish LAMCO Syndicate (Syndicate) and its members and the Series C preferred stock is held by LIO.

In 1981 and prior years the holders of preferred stock have agreed to waive scheduled redemption of preferred stock until 1982. As indicated in Note 15, no dividends have been declared on the Series A preferred stock since the first quarter of 1978 and no dividends have been declared on the Series B and C preferred stock since the third quarter of 1977. The table below sets forth the repayment scheduled under present terms of waivers (expressed in thousand U.S. dollars):

	Series			
	A	B	C	Total
1982	$2,377	$12,000	$2,750	$17,127
1983		2,000	550	2,550
1984		2,000	550	2,550
1985		19,664	6,050	25,714
	$2,377	$35,664	$9,900	$47,941

Preferred stockholders have indicated that they expect satisfaction of the undeclared and unpaid dividends attributable to the preferred stock as well as the redemptions scheduled of principal amounts of preferred stock in 1982, and believe this can be achieved through the generation of funds from current operations the obtaining of medium-term financing or other means. In the event that dividends cannot be satisfied and the required redemptions cannot be met, the preferred stockholders have indicated their agreement to further waive scheduled redemptions of preferred stock until 1983.

NOTE 5

JOINT VENTURE AGREEMENT

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 two parties share production of the joint venture generally in a 75/25 ratio with the proviso that, if LAMCO so requires under stated circumstances, LIBETH's portion must be a minimum of 2,500,000 tons annually. The parties may agree in any year to share in different proportions, but over the long term it is intended that the 75/25 ratio be observed.

NOTE 6

INVENTORIES

Inventories used in determining cost of sales at December 31, 1981, 1980 and 1979 were $27,602,000, $23,971,000 and $13,511,000 respectively. LAMCO's share of the costs of production of the LAMCO Joint Venture for the years ended December 31, 1981, 1980 and 1979 were $95,009,000, $88,461,000 and $83,702,000 respectively.

Effective January 1, 1981, the Participants in the LAMCO Joint Venture agreed to treat the direct reduction concentrate inventories as finished products. Previously such inventories had been classified as mined ore and ore in process. Accordingly the direct reduction concentrate inventories valued at $12,973,000 at December 31, 1980 were reclassified in the 1980 Financial Statements.

NOTE 7

LONG-TERM NOTES RECEIVABLE

Long-term notes receivable consists of mortgage notes from employees of LAMCO Joint Venture to enable them to purchase housing units. Such notes are repayable over fifteen years and bear interest at 8% per year.

NOTE 8

PROPERTY AND EQUIPMENT

Property and equipment are being depreciated over the shorter of the useful lives of the assets or the depletion date of the ore reserves presently being mined, which is estimated to occur in 1986. Accordingly, the range of remaining service lives at December 31, 1981 was as follows:

	Years
Railroad and harbor	5
Roads and airstrips	5
Buildings and rolling stock	5
Special purpose structures, machinery and equipment	3–5
Motor vehicles, boats and heavy-duty equipment	3–5

Substantial additional iron deposits are geologically proven in the western areas of the concession. If all or part of such reserves can be mined on a profitable basis, and if a decision is made to develop these properties in the future, the depreciable lives of the railroad, harbor and certain other assets would be lengthened to coincide with the new mining plans.

No interest costs were deferred during 1981, 1980 or 1979. Amortization of previously deferred interest costs amounted to $100,000 in 1981 and $104,000 in 1980 and 1979 respectively.

The pellet plant, closed in 1977 due to reduced demand and depressed selling prices for pellets, was indefinitely shut down in 1979, and the remaining net book value of the pellet plant was written off.

NOTE 9

ORGANIZATION EXPENSES, EXPLORATION AND DEVELOPMENT COSTS

During 1981, LAMCO incurred no exploration and development costs. LAMCO's additions to exploration and development costs in 1980 and 1979 amounted to $48,000 and $684,000 respectively. Annual amortization for LIO amounted to $29,000 for 1981 ($30,000–1980; $25,000–1979), and for LAMCO to $1,987,000 in 1981 ($4,175,000–1980; $1,959,000–1979), including $512,000 of interest deferred during the preoperating period ($543,000–1980; $443,000–1979). LAMCO's amortization charge for 1980 includes $1,940,000 regarding the write off of net book value covering deferred exploration expenses for geographic areas where commercial mining no longer appears possible.

NOTE 10

LONG-TERM DEBT AND SHORT-TERM DEBT

A. *Long-term debt:*

Long-term debt consists of capital financing credits used to purchase equipment for the LAMCO Joint Venture and the details are as follows (expressed in thousand United States dollars):

	December 31, 1981	1980
Capital financing credits	$7,912	$8,683
Less–Current maturities	(3,078)	(2,764)
Net long-term debt	$4,834	$5,919

Most capital financing credits bear interest at rates based on the United States prime rate and the London InterBank Offered Rate. During the year such variable rates ranged from 12.88% to 21.5%. In some instances, interest rates on capital financing credits are fixed for the entire loan period and range from 7.5% to 12%.

Capital financing credits are guaranteed by the Swedish Export Credit Corporation and the Export-Import Bank of the United States. These capital financing credits will mature as follows (expressed in thousand United States dollars):

1983	$2,455
1984	1,751
1985	529
1986	99
	$4,834

LAMCO retired all of its senior indebtedness, and a special term loan in 1980. Accordingly, all liens on the Class B common stock of LAMCO and on LAMCO's 75% interest in the LAMCO Joint Venture and dividend restrictions have been removed.

B. *Short-term debt:*
The details of short-term debt are as follows (expressed in thousand United States dollars):

	December 31, 1981	1980	1979
Short-term notes	$30,750	$25,750	$19,750
Bank overdrafts	1,405	–	–
	$32,155	$25,750	$19,750
Interest rates on year-end balances	13.00% –14.51%	13.69% –22.44%	15.25% –16.38%
Highest month-end balances	$32,155	$29,750	$29,750
Interest rates on average balances	17.53%	15.76%	12.81%
Average borrowings during the year based on month-end balances	$27,781	$21,769	$20,673

Short-term loans amounting to $19,750,000 and $11,000,000 at December 31, 1981 are guaranteed by the Swedish LAMCO Syndicate and Gränges AB, respectively and are payable over varying periods during 1982. LAMCO has pledged certain assets to secure the guarantee of its borrowing by Gränges AB. Commitment and guarantee fees of $188,000 were paid to Gränges AB in 1981.

During 1980 and 1981 LAMCO utilized a factoring facility, without recourse, carrying a discount rate equivalent to the London InterBank Offered Rate plus 0.75%. The maximum amount utilized under this agreement during 1981 was $11,227,000 in the fourth quarter. The factoring discount rate during 1981 varied from 10.25% to 21% (12.12% to 24.06% in 1980). See Note 4 concerning possible future financing plans.

NOTE 11

PENSIONS

Under the current pension plans, as described in Note 1, LAMCO's pension obligations charged to cost of production in 1981, 1980 and 1979 amounted to $3,931,000, $1,922,000 and $1,289,000, respectively.

The long-term pension obligation for Liberian employees of LAMCO Joint Venture is computed using the accrued benefit method and approximates the actuarially computed present value of accumulated vested and nonvested benefits. The actuarially computed present value of accumulated vested benefits is approximately $1,200,000 at December 31, 1981 ($300,000 at December 31, 1980). The interest rate assumption is 6%. No amounts pertaining to this long-term pension obligation have been funded.

During 1981, the Government of Liberia required the inclusion of certain fringe benefits in the determination of taxable pay used in the computation of pension reserves. This change resulted in an actuarial increase in the computed long-term pension obligations of $1,963,000. LAMCO will amortize this increase over a six-year period concluding in 1986. Accordingly $327,000 was included in 1981 cost of production. In February 1982, LAMCO Joint Venture was notified by the Ministry of Finance that such fringe benefits were no longer to be considered in the computation of taxable pay. If this action is adopted in a final form by the Republic of Liberia, the LAMCO reserve for pensions will be overstated by (300,000 at December 31, 1980) $327,000 at December 31, 1981 and future charges to cost of production for this matter would be unnecessary.

NOTE 12

ACCRUED LIABILITIES

Accrued liabilities consists of the following (*expressed in thousand United States dollars*):

	December 31, 1981	1980
Salaries, wages and benefits	$3,766	$2,607
Employee tax withholdings	2,124	1,664
Other	4,493	3,986
	$10,383	$8,257

NOTE 13

TAXATION

LIO was incorporated under the Companies Act of Canada and was continued as of 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 (48%) on its taxable income derived from interest income less normal business expenses.

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, $135,000 and $348,000 for such taxes is included in the expenses for 1981, 1980 and 1979 respectively.

Included in expenses for 1980 are Canadian income taxes payable amounting to $30,000, after utilization of all available tax loss carry forwards. As of December 31, 1980 all tax loss carry-forwards which arose from years prior to 1980 have been fully utilized.

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 loss 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 *(expressed in thousand U.S. dollars):*

	1981	1980	1979
Profit (loss) before adjustment	$43	($74)	($531)
Add:			
Canadian taxes provided	195	30	
Provision for deferred Liberian taxes	155	135	348
Acquisition expenditures – tax basis		43	241
Taxable income before utilization of tax loss carry-forwards	393	134	58
Utilization of tax loss carry-forwards		(70)	(58)
Taxable income	$393	$64	–

NOTE 14

RESERVE FOR CONCESSION DEVELOPMENT AND OTHER CORPORATE PURPOSES

The reserve subject to Board determination is composed of the following *(expressed in thousand U.S. dollars):*

	December 31, 1981	1980
Reserves appropriated out of profits in accordance with the Concession Agreement as required by lenders		$ 3,522
Reserve for concession development and other corporate purposes		52,513
Balance of accumulated net (loss)	$ 8,859	(29,182)
	$ 8,859	$26,853

The Board of Directors determined that all previous allocations of LAMCO's reserves should be merged into the single caption "Reserve for concession development and other corporate purposes" as of December 31, 1981.

NOTE 15

LAMCO DIVIDENDS AND LIO'S EQUITY IN LAMCO'S EARNINGS

LAMCO's Board of Directors has not declared any dividends on the Series A, B or C 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. No dividends on the Series A, B and C preferred stock have been declared during the period 1977 through 1981.

As of December 31, 1981, the unpaid cumulative dividends on LAMCO's Series A, B and C preferred stock aggregated $12,354,000 of which $2,553,000 pertained to Series C ($1,934,000 – 1980; $1,315,000 – 1979). Under the Concession Agreement, these dividends and scheduled redemptions of preferred stock amounting to $14,577,000 must be satisfied before common stock distributions may be declared. Such unpaid cumulative dividends represent a priority distribution of LAMCO retained earnings and as such are considered income to LIO when due irrespective of when such dividends might be paid by LAMCO.

The investment in Series C preferred stock consists of the following *(expressed in thousand U.S. dollars):*

	December 31, 1981	December 31, 1980
Investment at cost	$ 9,900	$ 9,900
Undeclared and unpaid cumulative dividends	2,553	1,934
	$12,453	$11,834

In addition, an amount equivalent to the royalty paid to the Government of Liberia and which has not yet been declared as a dividended to LIO aggregating $18,308,000 at December 31, 1981 must be declared and paid before payment of other dividends to the Class A and Class B common stockholders in equal amounts can be resumed. These unpaid equalizing dividends of $18,308,000 together with unpaid cumulative dividends on LAMCO's Series A, B and C Preferred Stock of $12,354,000 aggregated $30,662,000 at December 31, 1981. LAMCO had reserves subject to Board determination of $8,859,000 at December 31, 1981.

LIO's equity in the changes in the undistributed earnings of LAMCO attributed to common stock has been computed in accordance with the provisions of the Concession Agreement and consists of the following elements (*expressed in thousand U.S. dollars*):

	December 31, 1981	December 31, 1980	December 31, 1979
LAMCO's net loss	($17,994)	($ 3,165)	($32,326)
Dividends on Series A, B and C preferred stock, undeclared and unpaid	(2,996)	(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)	(4,195)
Basis for calculating LIO's equity in LAMCO's losses attributable to common stock	($25,382)	($10,596)	($39,517)
LIO's 50% share there of	($12,691)	($ 5,298)	($19,759)
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	4,195
Change in LIO's equity in undistributed earnings of LAMCO attributable to Class B common stock	($8,299)	($ 863)	($15,564)

LIO's investment in LAMCO Class B common stock of $10,658,000, $18,957,000 and $19,820,000 at December 31, 1981, 1980 and 1979 respectively, includes 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 dividends, equivalent to the royalty paid by LAMCO to the Government of Liberia, as follows (*expressed in thousand U.S. dollars)*:

	December 31, 1981	December 31, 1980
Investment in Class B common stock of LAMCO, adjusted for LIO's 50% share of earnings, losses and dividends received	($ 7,650)	$ 5,041
Cumulative undeclared equalizing dividends, equivalent to royalty paid by LAMCO to the Government of Liberia	18,308	13,916
	$10,658	$18,957

The disproportionate sharing in LAMCO's retained earnings by LIO arises from the Concession Agreement under which the royalty to the Government of Liberia must be paid annually and accounted for by LAMCO as an expense, whereas the equalizing payment to LIO is accounted for as a dividend by LAMCO when declared and paid. The equalizing dividend is treated as income to LIO when the royalty is paid to the Government of Liberia, irrespective of when such dividends might be declared and paid by LAMCO.

NOTE 16

DIRECTORS, OFFICERS AND THEIR REMUNERATION

There are twelve directors and six officers of LIO. Three of the officers are also directors. Aggregate remuneration was $36,000 in 1981 ($69,000 – 1980; $56,000 – 1979).

NOTE 17

LAMCO CUSTOMERS

LAMCO sells its iron ore products to customers principally located in Europe. In 1981 LAMCO recorded sales to two customers, each of which is in excess of 10% of LAMCO's total sales for the year (four – 1980; three – 1979). Sales to these customers in 1981 were $17.1 million and 13.4 million ($15.6, $14.8, $13.2 million and 11.4 million – 1980; $16.7, $16.6 and $11.4 million – 1979).

NOTE 18

CONTINGENCIES AND LEGAL MATTERS

In February 1980, a judgment in the amount of $293,000 was entered against the LAMCO Joint Venture and the LAMCO Mine Workers Union, jointly and severally, by the Debt Court for Grand Bassa County, Liberia in a suit brought by a transportation company which had contracted with the union to transport workers. Subsequently, the LAMCO Joint Venture was required to post a noninterest-bearing bond equal to 1 1/2 times the amount of the judgment. LAMCO's portion, amounting to $330,000 has been recorded at December 31, 1980 as cash in escrow. In August 1981, the Peoples Supreme Tribunal of the Republic of Liberia upheld the judgment of the Debt Court. LAMCO Joint Venture was required to pay $357,000 (LAMCO's portion was $267,000), including interest of $64,000 (LAMCO's portion was $48,000) to the transportation company. Such amount was included in 1981 cost of production. LAMCO Joint Venture management is considering what further actions to take in this matter.

Certain domestic servants of LAMCO Joint Venture employees brought a claim against the Joint Venture for back pay and benefits alleging that they were in fact employees of the Joint Venture. This case was initially decided in favor of the Joint Venture, but upon appeal, the Civil Law Court found in favor of the servants. LAMCO Joint Venture has appealed this matter to the Peoples Supreme Tribunal. Although the possible extent of the LAMCO Joint Venture's liability, if any, cannot be determined at this time, in the opinion of management any such liability will not be material.

NOTE 19

WORKERS UNION NEGOTIATIONS

The collective bargaining agreement between LAMCO Joint Venture and the LAMCO Mine Workers' Union expired on December 31, 1979. Negotiations with respect to a new contract have not yet commenced. Until a new agreement is reached, the terms of the previous agreement continue to apply. Following an agreement between the Participants in LAMCO Joint Venture and Government representatives in August 1981, all wages were increased by 6% effective January 1, 1981 with an additional increase of 6% effective January 1, 1982.

NOTE 20

LIO EXPENSES

Included in 1980 expenses is $45,000 ($253,000–1979) 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.

NOTE 21

CURRENT OPERATIONS

As indicated in the Management's Discussion and Analysis of Financial Condition and Results of Operations, the continuation of LAMCO as a going concern, and its ability to continue support of the LAMCO Joint Venture is dependent upon its success in carrying out further cost reduction measures and the availability of short-term financing in the near term. LAMCO believes it has obtained sufficient commitments necessary to ensure the availability of short-term financing for 1982 operations and is confident that short-term working capital requirements and necessary capital expenditures can be met.

The ability of LAMCO to continue on a longer term basis is dependent either on improvement in the iron ore market substantial enough and soon enough to attract the significant amounts of investment required for the development and exploitation of LAMCO's proven iron ore reserves in the Western Area or on the possible utilization of LAMCO's assets or reserves in conjunction with those of other parties.

NOTE 22

CONTRACTUAL COMMITMENTS

All with Gränges AB, a member of the Swedish LAMCO Syndicate, are as follows:

Service	Fees
1 Management of the project for indefinite period, cancellable on two years' notice.	10 cents per ton of finished ore produced plus expenses.
2 Sales agent for indefinite period, cancellable on one years' notice.	2%of net invoice prices, fob Liberian port, on sales of first 5,000,000 tons; 1% on sales in excess of 5,000,000 tons.
3 Management and administrative services for LAMCO for indefinite period, cancellable on one year's notice.	Actual expenses as incurred.
4 Commitment and guarantee fee for short-term financing guaranteed by Gränges AB.	0.5% per annum fee for quarantees committed and 1.5% per annum for amounts actually borrowed under guarantees.

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

LIQUIDITY

LAMCO's sole business is the mining, processing and sale of iron ore and its revenues are solely derived from receipts under ore sales contracts. The worldwide iron ore market has been depressed for several years and increases in unit prices of ore in 1979 and 1980 contracts have been inadequate to meet the increased costs of production and shipping. In addition, LAMCO's ore prices for 1981 contracts represented a 4% price decrease fob Buchanan compared with 1980 contracts. As a result, LAMCO's cash requirements in recent years, including the retirement since January 1, 1978 of $33.5 million in long-term debt at maturity, have often exceeded the amounts of cash available from operations. Such requirements have been met with guaranteed short-term borrowings, with factoring of accounts receivable and with capital financing credits for equipment purchases. Short-term borrowings of $19.8 million have been guaranteed by the Swedish LAMCO Syndicate and short-term loans in 1981 ranging from $6.0 million to $11.0 million have been guaranteed by Gränges AB. In addition, capital financing credits of $2.4 million and $4.8 million were obtained in 1981 and 1980. Amounts outstanding for such financing amounted to $7.9 million and $8.9 million on December 31, 1981 and 1980 respectively. Under LAMCO's factoring facility, the highest amount utilized was $11.2 million in the fourth quarter of 1981. The maximum amount available under this facility is $12.0 million.

The Manager and the LAMCO Joint Venture Participants have taken steps to reduce intended cash requirements, and LAMCO's dependence on short-term borrowings. These steps include the deferral of capital and maintenance expenditures which began in 1977 and other cost reduction measures, including the more economic and efficient uses of equipment, materials and supplies and a reduction in the work force.

Due to limited resources available, LAMCO's capital expenditure budget has been significantly reduced in 1980, 1981 and 1982. Generally, capital expenditures are being made only when necessary to preserve the efficient operation of the mining and processing facilities.

In connection with such reduction, the LAMCO Joint Venture Participants agreed in January 1980, to an across-the-board 18% reduction in staff and workers. The implementation of such program was, however, delayed at the request of the Government following the April 1980 coup d'etat. Since the coup this program has been implemented on a voluntary basis and, combined with other reductions in employees, has reduced the total LAMCO Joint Venture work force by 11% from the level at January 1, 1980. The reduction program is expected to continue.

In 1981 and prior years the holders of preferred stock have agreed to waive scheduled redemption of preferred stock until 1982. Additionally, LAMCO has not paid any dividends on preferred stock since 1978. Preferred stockholders have indicated that they expect satisfaction of the undeclared and unpaid dividends attributable to the preferred stock as well as redemptions scheduled of principal amounts of preferred stock in 1982 and believe this can be achieved through the generation of funds from current operations, the obtaining of medium-term financing or other means. In the event that dividends cannot be satisfied or the required redemptions met, the preferred stockholders have indicated their agreement to further waive scheduled redemptions of preferred stock until 1983. If such satisfaction should require additional financing, LAMCO will be required to pay interest on such borrowings in addition to those required on borrowings for operations.

Even after giving effect to the efforts to reduce cash requirements discussed above, LAMCO has been required to rely on guaranteed short-term borrowings, factoring of accounts receivable and capital financing credits in order to meet its cash requirements. It is expected that LAMCO will continue to rely upon guaranteed short-term debts and capital financing credits in 1982. It is not possible, at this time, to predict whether LAMCO will be able to maintain revenues from ore shipments at levels sufficient to generate accounts receivable necessary to permit continued factoring at current levels.

In early 1982, LAMCO negotiated new ore prices for shipments to some significant customers under 1982 contracts which amounted to about 22% fob. Buchanan over the 1981 price level. However, because of arrearages in some contracts, approximately 10% of 1982 shipments will be at 1981 prices. It is anticipated that similar pricing agreements will be concluded with LAMCO's other customers.

CAPITAL RESOURCES

As noted above, LAMCO's required short-term borrowings have been guaranteed by third parties; other sources of capital have been limited to the factoring of accounts receivable and financing credits for the purchase of capital equipment. In the United States, such financing credits have been guaranteed by the Export-Import Bank of the United States ("Eximbank") and in Sweden by the Swedish Export Credit Corporation ("SECC"). Because of the political and economic situation in Liberia, the SECC in late 1980 denied LAMCO's application for a guarantee of additional financing credits. No further requests for guarantees from these banks have been made because of minimal capital expenditure in 1981. LAMCO believes it will be able to generate sufficient funds from current operations to meet the 1982 capital expenditure budget.

LAMCO retired all of its senior indebtedness, other than capital financing credits, and a special term loan in 1980. As a result, security interests of the debt holders in LAMCO's Class B common stock, ore sales contracts and its 75% interest in the LAMCO Joint Venture were terminated.

Additional long-term financing will be required should LAMCO make a commitment to develop its proven iron ore reserves in the Western Area or upon the possible utilization of LAMCO's assets or reserves in conjunction with those of other parties. These alternatives are currently being studied and LAMCO has not made a decision whether or not to proceed. The possibility of LAMCO obtaining such additional long-term financing is dependent upon substantial improvements in the iron ore market.

EFFECTS OF INFLATION ON LAMCO'S RESULTS OF OPERATION AND FINANCIAL CONDITION

As indicated above, unit price increases have not been adequate to meet the increased costs of production and shipments. Virtually all of LAMCO's costs of production during the past three years have escalated more rapidly than the general rate of inflation. These include the cost of fuel oil, explosives and additional worker benefits, such as pay adjustments and worker housing. While these variable costs of production are subject to reduction, some can be reduced only over a relatively longer period of time. The inflationary increases in the actual current costs of goods and services to LAMCO are not, however, the only adverse effects of inflation insofar as it may be relevant to an evaluation of LAMCO's financial condition and results of operations. Depreciation and amortization charges are based upon historical costs of capital assets. If such charges were based upon current replacement costs, operating income would be substantially reduced and net loss would be substantially increased. Exploration and development expenditures, particularly the cost of harbor, rail facilities and the mining concession would probably be substantially higher if carried at current price levels. Although it is not possible to determine with precision the current costs of finding and developing the LAMCO Joint Venture's current ore body and constructing the fixed production and transportation facilities now in use it is believed that such costs have increased at a rate at least equivalent to general inflation.

Current replacement costs of present facilities may also not be wholly conclusive indicators of the effects of inflation on LAMCO's financial condition and results of operations. For example, if the existing harbor facility were replaced, even at significantly higher cost than such facilities are carried on the balance sheet, it is probable that the harbor capacity would be expanded, enabling LAMCO to service larger vessels thereby reducing freight charges and resulting in higher f o b prices.

RESULTS OF OPERATIONS

Shipments of 7.5 million metric tons for 1981 were approximately the same as those in 1980. However, because of a 4% decrease in sales prices f o b Buchanan on 1981 contracts, LAMCO's sales revenues decreased from 1980 levels. This decrease was partially offset by shipments during the first quarter of 1981 against quantities sold at higher 1980 prices and the start of sales of direct reduction concentrates at prices substantially in excess of other ore prices. The combined effect of these factors was a net decrease in sales revenues of $1.1 million in 1981.

Sales revenues in 1980 increased 5.7% from 1979 principally due to the 15.8% increase in the price of ore although volume decreased from 8.1 million tons in 1979 to 7.5 million tons in 1980 due to reduced demand from the European steel industry.

Cost of sales increased 10.1% in 1981 when compared with 1980 primarely because of increased employee related costs and higher prices of materials, supplies and fuel. Employee benefit costs increased during the year because of higher long-term pension costs. Inflationary pressures have increased the prices of materials, supplies and fuel used in the production of iron ore. Additionally, LAMCO Joint Venture reopened mining activities in the Mt. Tokadeh area which resulted in longer hauling distances and increased maintenance costs.

Cost of sales for 1980 decreased from 1979 by approximately 11.3% due primarily to productivity gains, in which costs per ton were reduced by approximately 10%, associated with greatly increased production, in spite of production interruptions resulting from the coup d'etat. Cost of sales in 1980 was further reduced by lower depreciation charges resulting from the pellet plant write off in 1979, but was charged with an additional write off of some $1.9 million relating to deferred exploration expenditures for geographic areas in which mine development is not expected to take place.

Selling expenses and royalty to the Government of Liberia from 1979 to 1981 have fluctuated in proportion to sales. General and administrative expenses for 1979, 1980 and 1981 are approximately the same except for an insurance claim recovery in 1980 amounting to $1.1 million for a major conveyor belt collapse in 1979 offset by increased demurrage and freight expenses in 1980 of $0.6 million.

LIO

LIO, which holds 50% of LAMCO's common stock, derives substantially all its income from LAMCO. Accordingly, the results of LIO are almost entirely dependent upon the results of operations of LAMCO which are discussed above. In October 1978 the Board of Directors of LIO announced the suspension of further dividends until substantial improvements were noted in the results of LAMCO. The suspension remains necessary because LIO received no cash dividends from LAMCO since 1978 and does not expect to receive any during 1982. Should LAMCO make a preferred stock redemption and therefore be required to borrow funds, LIO may be required to guarantee LAMCO's ability to repay such borrowings in proportion to the redemptions received by LIO.

FIVE-YEAR SUMMARY STATEMENTS OF PROFIT AND LOSS AND RETAINED EARNINGS

(Expressed in thousand United States dollars, except for per share amounts)	Year ended December 31, 1981	1980	1979	1978	1977
STATEMENT OF PROFIT AND LOSS					
Dividends from LAMCO:					
Series C preferred stock					$ 556
Class B common stock					6,221*
					6,777
Interest income	$ 727	$ 564	$ 452	$ 413	280
	727	564	452	413	7,057
Expenses	684	638	983	358	512
	43	(74)	(531)	55	6,545
Change in equity in the undistributed earnings of LAMCO attributable to common stock	(8,299)	(863)	(15,564)	(7,756)	(1,040)
Undeclared and unpaid current dividends on Series C preferred stock	619	619	619	619	154
Net (loss) profit	($ 7,637)	($ 318)	($15,476)	($ 7,082)	$ 5,659
Earnings per share based on 3,955,025 average shares outstanding:					
Net (loss) profit per share (including $1.65 in 1977; $0.01 in 1978; ($0.13) in 1979; ($0.02) in 1980; and $0.01 in 1981 in dividends and interest income less expenses)	($ 1.93)	($ 0.08)	($ 3.91)	($ 1.79)	$ 1.43
Cash dividends per share				$ 0.50	$ 1.20

	1981	1980	1979	1978	1977
STATEMENT OF RETAINED EARNINGS					
Net (loss) profit	($ 7,637)	($ 318)	($15,476)	($ 7,082)	$ 5,659
Retained earnings at beginning of year	21,580	21,898	37,374	46,434	45,521
	13,943	21,580	21,898	39,352	51,180
Deduct – Cash dividends declared				1,978	4,746
Retained earnings at end of the year	$13,943	$21,580	$21,898	$37,374	$46,434
Represented by:					
Accumulated profits before equity in undistributed earnings of LAMCO	$ 3,982	$ 3,939	$ 4,013	$ 4,544	$ 6,467
Equity in undistributed earnings of LAMCO attributable to common stock	2,553	15,707	16,570	32,057	39,813
Undeclared and unpaid current dividends on Series C preferred stock	7,408	1,934	1,315	773	154
	$13,943	$21,580	$21,898	$37,374	$46,434

* Includes $3 million distributed in 1977 of 1976 equity in earnings.

FIVE-YEAR SUMMARY STATEMENTS OF PROFIT AND LOSS AND APPROPRIATION AND DISPOSITION OF NET PROFIT IN ACCORDANCE WITH THE CONCESSION AGREEMENT

(Expressed in thousand United States dollars)

	Year ended December 31,				
	1981	1980	1979	1978	1977
STATEMENT OF PROFIT AND LOSS					
Sales	$109,799	$110,875	$104,885	$107,037	$105,639
Gross (loss) profit	(1,590)	9,748	(9,132)	(1,801)	22,584
Selling, general and administrative expenses	3,881	3,339	3,709	3,203	3,273
Royalty to Government of Liberia	4,392	4,435	4,195	4,281	4,226
(Loss) Profit from operations	(9,863)	(1,974)	(17,036)	(9,285)	15,085
Provision for loss on pellet plant			9,700		
Financing charges (net):					
Interest expense	8,131	5,455	5,159	5,612	3,675
Exchange losses (gains)		(316)	431	1,899	2,111
Net (loss) profit	($17,994)	($3,165)	($32,326)	($16,976)	$9,299
STATEMENT OF APPROPRIATION AND DISPOSITION OF NET PROFIT (LOSS)					
Dividends on preferred stock					$ 2,643
Dividends on Class B common stock equivalent to royalty to Government of Liberia					3,221
Appropriations by Board of Directors to reserves;					
As required by lenders					34
Transfer from balance of 1976 profit					(6,000)
Dividends distributed equally on Class A and Class B common stock					6,000
Balance of current year's net profit subject to Board determination					3,401
Balance of current year's loss	($17,994)	($3,165)	($32,326)	($16,796)	
Net (loss) profit	($17,994)	($3,165)	($32,326)	($16,796)	$ 9,299
Distributions to common stockholders;					
To Government of Liberia:					
Royalty	$ 4,392	$ 4,435	$ 4,195	$ 4,281	$ 4,226
Dividends on Class A common stock					3,000
	4,392	4,435	4,195	4,281	7,226
To LIO:					
Dividends on Class B common stock equivalent to royalty to Government of Liberia					3,221
Dividends on Class B common stock					3,000
					6,221
Total to Government of Liberia and LIO	$ 4,392	$4,435	$ 4,195	$ 4,281	$13,447

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