



LAKE ONTARIO
CEMENT LIMITED

and Subsidiary Companies

ANNUAL
REPORT

1971

Directors

Peter Barry - - - - - Rochester, New York
President, The Monroe Savings Bank, former Mayor of Rochester

William M. Bateman - - - - - Toronto, Ontario
President, Lake Ontario Cement Limited

Charles F. W. Burns - - - - - Toronto, Ontario
Chairman, Burns Bros. and Denton Limited

W. H. Evans - - - - - Toronto, Ontario
Chairman of the Board, Lake Ontario Cement Limited
Former Chairman of the Board of Honeywell Controls Limited

John D. Fowler - - - - - Toronto, Ontario
Executive Vice-President, Lake Ontario Cement Limited

W. H. Jagels - - - - - Rochester, New York
Retired, former President of Rochester Portland Cement Corp.

E. B. McConkey - - - - - Toronto, Ontario
Vice-President, Finance and Treasurer, Denison Mines Limited

Harvey J. McFarland - - - - - Picton, Ontario
President, H. J. McFarland Construction Company Limited

John A. Mullin, Q.C. - - - - - Toronto, Ontario
Partner, Fraser & Beatty

James G. Pickard - - - - - Toronto, Ontario
Retired, former Vice-Chairman of the Board

Hon. Michael Starr, P.C. - - - - - Oshawa, Ontario
Presiding Officer of the Citizenship Court of Toronto & District

Officers

W. H. Evans - - - - - Chairman of the Board

W. M. Bateman - - - - - President

J. D. Fowler - - - - - Executive Vice-President

D. R. T. White - - - - - Vice-President Administration and Finance and Secretary

B. T. Price - - - - - Vice-President—Operations

R. P. Sutherland - - - - - Assistant Secretary and Corporate Controller

C. A. Gibbs - - - - - Assistant Treasurer

Head Office 2 Carlton Street, Toronto 2, Ontario

Subsidiaries Rochester Portland Cement Corp., Rochester, New York
Ryan Builders Supplies (Windsor) Limited, Windsor, Ontario

Transfer Agent and

Registrar (Canada) Guaranty Trust Company of Canada, Toronto, Ontario

Transfer Agent (U.S.A.) First National City Bank, New York, New York

Registrar (U.S.A.) Marine Midland Bank—New York, New York

Auditors Eddis & Associates, Toronto, Ontario

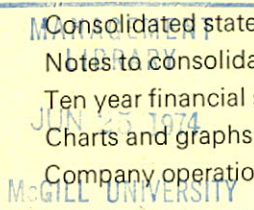
Solicitors Davies, Ward & Beck, Toronto, Ontario

LAKE ONTARIO CEMENT LIMITED

financial highlights	Year ended December 31,	
	1971	1970
Billings to customers, less discounts and taxes - - - - -	\$26,443,457	\$22,617,173
Depreciation and depletion - - - - -	\$ 2,039,697	\$ 1,990,799
Interest on long-term debt - - - - -	\$ 749,210	\$ 462,965
Interest on bank loan - - - - -	\$ 210,509	\$ 581,681
Earnings before provision for income taxes -	\$ 2,524,894	\$ 1,089,518
Net earnings for the year - - - - -	\$ 1,269,894	\$ 534,518
Earnings per common share - - - - - (after provision for income taxes)	30.1¢	12.7¢
Funds generated from operations - - -	\$ 3,518,999	\$ 3,128,897
Capital expenditures - - - - -	\$ 1,427,830	\$ 1,254,852
Working capital - - - - -	\$ 5,569,464	\$ (377,217)
Long-term debt (including amounts due within one year) - - - - -	\$11,156,950	\$ 7,148,432
Shareholders' equity - - - - -	\$19,565,652	\$18,295,758
Common shares outstanding - - - - -	4,223,461	4,223,461

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The photograph on the front cover is of a decorative concrete block wall in the Board Room of the Ontario Concrete Block Association, Toronto. This wall was laid up by Dominion Masonry and Stone Contractors Limited with concrete block supplied by Primeau Argo Block Co. Limited.



REPORT TO THE SHAREHOLDERS

The year 1971 was one of significant accomplishment for Lake Ontario Cement Limited, with operating results being substantially improved from those of 1970, the debt structure of the Company being put on a sound long-term basis and a new Division being established to provide a more effective means of serving the concrete products markets.

Shipments of products reached record levels with total consolidated sales \$26,443,457, up 17% from the 1970 level of \$22,617,173. Consolidated earnings after provision for income taxes were \$1,269,894 or 30.1¢ per share, more than double 1970 earnings and \$240,299 higher than the previous high earnings achieved in 1965.

The improvement in results over those of 1970 came from increased cement shipments in Canada and the United States, increased efficiencies at the Picton cement plant, and significant improvement in most phases of the concrete products operations. These results were achieved in spite of the 10% surcharge on cement shipments into the United States which became effective on August 16, 1971, and the gradual decline in the exchange rate of the U.S. dollar. These items are especially important to the Company as a significant percentage of its cement shipments is exported to the United States.

Cement Division—Sales

Shipments of cement to the Company's market areas in Ontario and the United States set a new record, increasing by 12% from 1970 levels.

A cement price increase averaging approximately 6% was instituted in our U.S. market effective on January 1, 1971. In Ontario there was a small increase in the price of cement delivered in bags, but there has not been a price increase since June 1970 for bulk cement which constitutes the major portion of our shipments in the Province.

Programs of profit improvement for the cement division were inaugurated in 1971, and they contributed significantly to the Division's good results.

Cement Division—Manufacturing

The year 1971 was devoted primarily to increasing the efficiencies of the Picton cement plant and to

installing additional air management control equipment.

The addition of kiln chains, the use of natural gas in the kilns and new grinding facilities contributed to the improved efficiency of the plant and increased production capacity. As part of a continuing program to expand facilities, a new cement grinding mill was installed and became operative in October 1971. This mill increases the Company's cement grinding capacity by at least 10%.

The Company is continuing to work closely with engineers of the Air Management Branch of the Ontario Department of Energy and Resources. The engineering staff at Picton is committed to the major task of completing a program of environmental control to meet the requirements of air, water and land management. During 1971 the Company completed work on reducing the emission of dust particles from the kiln exhaust stacks by the addition of electrostatic precipitators and installing water spray systems to reduce other dust sources. To date the Company has spent over \$1,000,000 on air management and dust control. In 1972 approximately \$500,000 will be spent to reduce emissions of dust from the clinker cooler exhaust with the work expected to be completed by mid-year. When this project is completed the Company will meet the new requirements of the Provincial Act, one of the most stringent in the world.

In order to improve the facilities at Picton, new offices were constructed in 1971 to accommodate management, engineering and accounting personnel as well as to provide meeting and lunchroom facilities. In addition a new mill control testing laboratory was constructed.

A great deal was accomplished during the year to reduce fuel costs, a major item in the cost of cement manufacturing. First, a long term contract was negotiated for the supply of coal requirements at a stable price and with controls in the contract that would apply to future price increases. Second, the long term contract entered into by the Company with Northern and Central Gas Corporation Limited for the supply of natural gas was approved by the Ontario Energy Board in 1971 and approximately 14 miles of pipeline was constructed to provide gas

to the Company. A successful conversion of burners and control systems on each kiln was accomplished in May 1971 allowing the plant to burn natural gas in place of or in conjunction with coal to achieve the most economic fuel cost.

Concrete Products Division

In July 1971, the ready-mixed concrete, concrete block, building supply and aggregate operations of the Company were merged to form the Concrete Products Division. This Division contains Ryanconcrete-Sterling Products of Windsor, Premier Concrete Products of Toronto, Alton and Hamilton and is organized along functional lines. The new organization enables the Company to serve more effectively the concrete product markets in Ontario and improve the efficiency of the various operations.

Sales reached record levels for all products and there was significant improvement in profitability in this division in 1971. This improvement occurred primarily because of increased volume, improved efficiency and cost reductions in operations, and also because of the relaxation of the price war in the Toronto market area. While selling prices have improved, they have not reached a level sufficient to meet the wage and material cost increases of the last few years and to provide a satisfactory return on investment.

Capital Expenditures

Capital expenditures in 1971 totalled \$1,427,830, compared to \$1,254,852 in 1970. The majority of these expenditures were made at the Picton cement plant, primarily for the new cement grinding mill and for air management control equipment. Other expenditures were made in the Cement and Concrete Products Divisions to replace old and obsolete equipment, to improve production and to reduce costs.

A study of capital needs for the Company for the next five years is in process, with particular emphasis being given to the need for the expansion of facilities to enable the Company to meet the expected growth in demand for cement and concrete products. It should be pointed out that a significant

part of the capital expenditures made over the past few years and planned for next year pertain to the equipment needed to meet rigid standards for dust control. While the Company co-operates fully in meeting such standards, the large expenditures involved represent a direct increase in the cost of production without economic benefit.

Labour

During 1971 the Company signed a two-year agreement with the Teamsters Union at Windsor. The union agreement with the United Cement, Lime and Gypsum Workers at Picton expired November 30, 1971, and a new agreement is presently being negotiated.

Financial Position

In June 1971 the Company arranged for a 20-year 9¾% debenture with The Prudential Insurance Company of America, the proceeds of which were used to retire the \$6,395,400 5½% debentures due June 30, 1971 and to reduce bank borrowings. This new debenture, in the amount of \$10,500,000 places the long-term financing of the Company on a sound basis and, for the first time in several years, the Company is in a strong working capital position. Working capital at the end of 1971 was \$5,569,464, an improvement of \$5,946,681 over the negative position at the end of 1970.

Primeau Argo Block Co. Limited

Primeau Argo Block Co. Limited experienced another successful year in 1971 with sales volume improving over the previous year in spite of an increasingly competitive market. Major modernization of production equipment was completed at two of this company's production plants. Further modernization is planned for 1972 so that the company may retain its leading position in the Metropolitan Toronto construction market.

The financial results of Primeau Argo Block Co. Limited are not included in this report, but the actual value of the investment is substantially above its cost which appears on Lake Ontario Cement Limited's balance sheet. The association of Lake Ontario

Cement Limited with Primeau Argo Block Co. Limited has been a most successful one and both companies look forward with optimism to future growth.

Outlook for 1972

The anticipated growth in cement consumption in the 1970's appears to be taking place. The construction activity in the Company's market areas in 1972 should be similar to 1971 with emphasis on residential construction.

While the Company is optimistic about 1972, there are certain major factors that could significantly alter this projection. The most important concern is the number of labour contracts that come up for renewal during the year in Ontario, and the possibility of labour unrest looms large in the construction industry. Another major factor is the price-wage freeze in the United States, which may affect the Company's ability to increase the selling price of cement commensurate with increased costs.

The surcharge levied by the United States on cement shipments adversely affected 1971 results, but it was lifted on December 20, 1971 and duty on cement into the United States was eliminated effective January 1, 1972. These recent developments are most encouraging to the Company, although there is still concern as to the exchange rate of the Canadian dollar in relation to the U.S. dollar.

Directors and Management

At the Annual Meeting in 1971, two new Directors were elected to the Board; the Hon. Michael Starr, P.C. and Mr. J. D. Fowler. Mr. Starr, a former Mayor of the City of Oshawa and a longtime member of Parliament, was for six years Federal Minister of Labour. In June, 1968, Mr. Starr was appointed Presiding Officer of the Canadian Citizenship Court. Mr. Fowler, Executive Vice-President of Lake Ontario Cement has been associated with the Company since 1962 in various executive capacities and was appointed a Vice-President in 1965.

On August 30, 1971 Mr. W. H. Evans was appointed Chairman of the Board. Mr. Evans has had a long and distinguished business career and has been a Director of the Company since January 1970. Mr. J. D.

Fowler was appointed Vice-President—Marketing and Concrete Products Divisions in January and became Executive Vice-President of the Company on August 30, 1971.

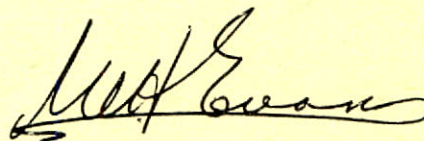
Mr. R. D. MacLean, a Director and President of your Company since 1965, resigned in September to accept the position of President of the Portland Cement Association with headquarters at Skokie, Illinois. The Portland Cement Association is the market development and research organization for the cement companies of North America, and Mr. MacLean is the first Canadian to hold this prestigious and important position. The Company wishes to express its special appreciation to Mr. MacLean for his dedicated service to the Company and to congratulate him on his new responsibility.

Mr. William M. Bateman, formerly Senior Vice-President of C. A. Pitts Engineering Construction Ltd., was appointed President of the Company on December 16, 1971. Mr. Bateman's extensive administrative and construction experience will materially strengthen the Company's management group.

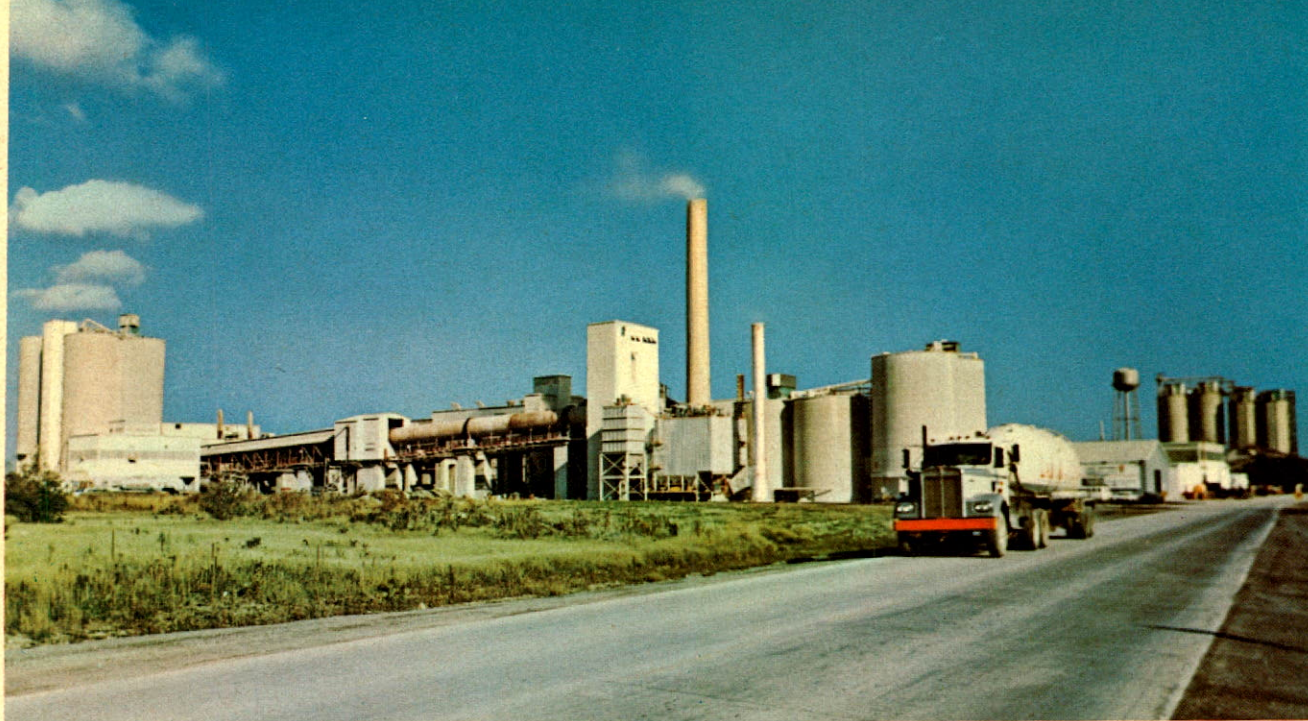
Mr. J. G. Pickard has reached the mandatory retirement age and will not stand for re-election as a Director of Lake Ontario Cement Limited at this year's Annual Meeting. Mr. Pickard has been actively associated with the Company for 10 years, both as a Director and as a senior executive officer. He has been a Director since 1961, was President from 1962-1965 and Vice-Chairman of the Board from 1965 to 1969. He has made a significant contribution to the Company, particularly during its early and most difficult years of growth. His keen interest and counsel will be sorely missed.

The Board of Directors wishes to express its thanks to the employees for a job obviously well done during the year.

On behalf of the Board of Directors,



W. H. EVANS
Chairman of the Board



A REPORT ON CEMENT MANUFACTURING

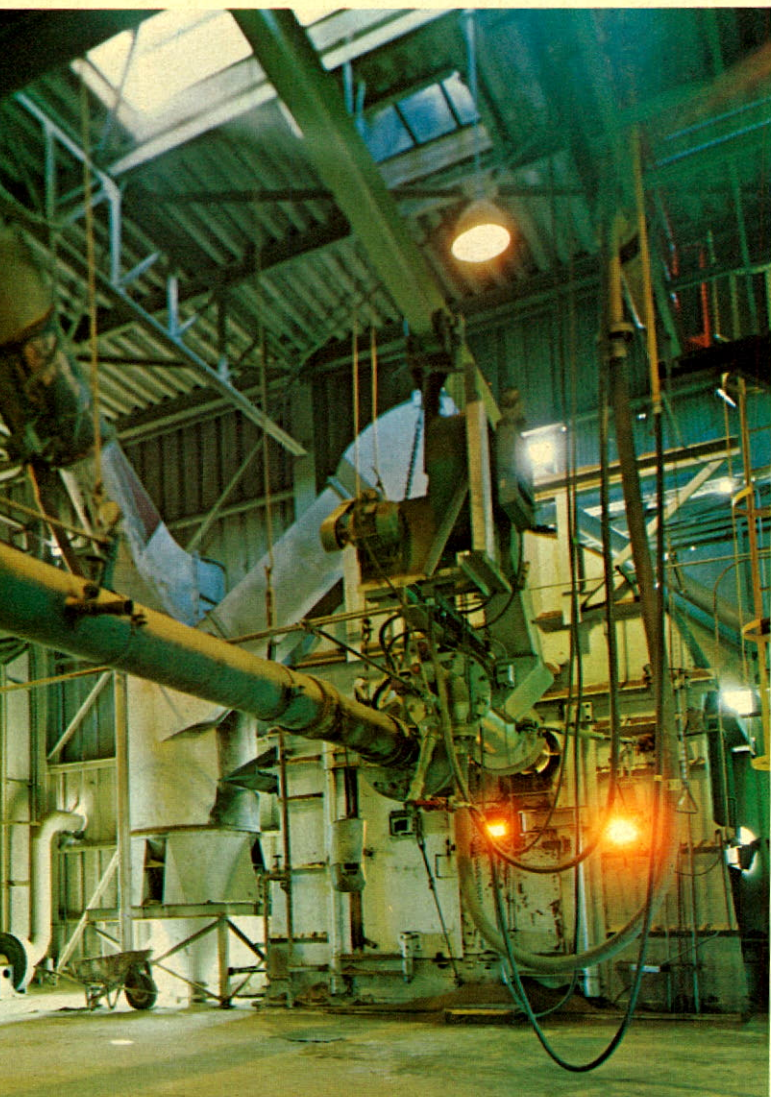
The Company owns and operates a cement manufacturing plant at Picton, an aggregate plant at Alton, Ontario, ready-mixed concrete plants in the Toronto, Hamilton and Windsor areas and a concrete block

and building supply operation in Windsor. Cement is sold in Ontario, and through a U.S. subsidiary, in New York State.

In order that shareholders may become better acquainted with the Company's operations, this report contains on this and the following four pages a description of the cement manufacturing facility, one of the Company's major assets. This plant is one of the largest and most modern in Canada, and is strategically located on deep navigable water allowing access to the entire St. Lawrence and Great Lakes markets. The plant is designed to produce various types of portland and masonry cements.

The Picton cement plant was originally built in 1957, commenced commercial operations in 1958, and its capacity was doubled in 1966. The plant is located in Picton, Ontario, approximately 125 miles east of Toronto on the north shore of Lake Ontario on deep water. The plant manufactures cement using the dry process method and has three rotary type kilns in addition to raw material and cement grinding and storage facilities.

The main ingredient for cement, limestone, is quarried directly from land owned by the Company on which



the plant is situated, and there are sufficient limestone reserves for over 100 years of production at the present rate of usage. Other essential raw materials such as sand are available nearby. An aggregate operation crushes and grinds the rock for direct conveying into the manufacturing process.

The manufacturing facility is designed to utilize the most effective combination of fuels. Both coal and natural gas are used in the burning and drying process of manufacturing cement. The Company has a long-term contract for coal which is delivered in large self-unloading lake freighters and is transported directly to the kiln area for subsequent crushing and burning in the manufacturing process.

Natural gas, also purchased on the basis of a long-term contract, is supplied from a 14-mile pipeline, and each of the three kilns is equipped to handle either gas or coal, or both simultaneously, to achieve the most economical fuel cost.

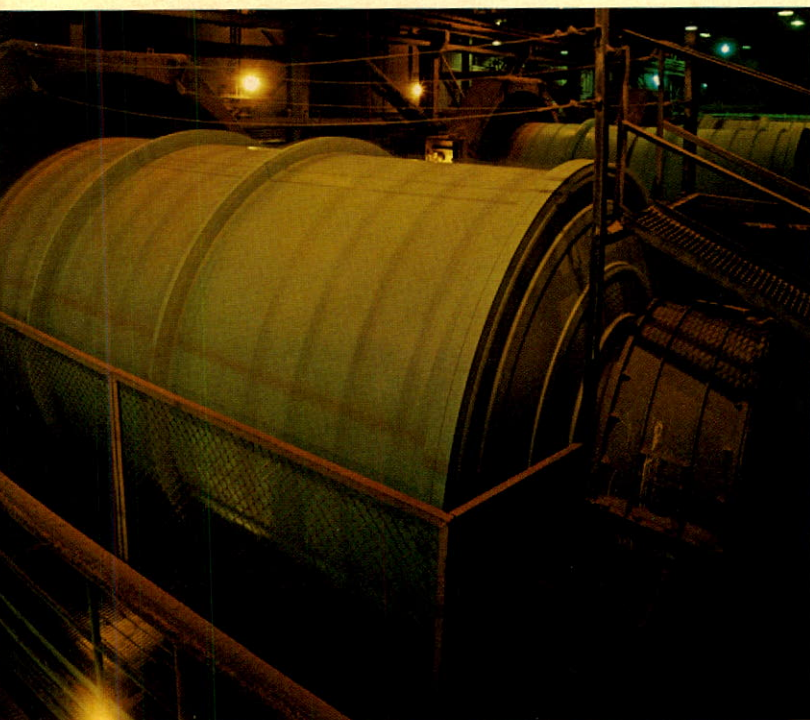
This combined use of gas and coal for the firing of kilns is a significant technical advance, and the installation at Picton is one of the few in North America.

Crushed limestone when mixed with sand, iron ore, and other additives is burned in the kilns to produce "clinker", the base material of cement. The "clinker" is then ground with gypsum in large grinding mills to produce the finished cement.

The Company has control rooms for both the grinding and kiln process of an advanced nature, as the manufacturing process requires sophisticated electrical and electronic control systems managed by personnel with high technical skills.

The quality of cement is constantly monitored, and X-ray analysis, chemical and physical testing of cement is conducted in the Company's modern laboratory.

Equipment to control dust generated in the manufacturing process is an essential part of the cement plant.



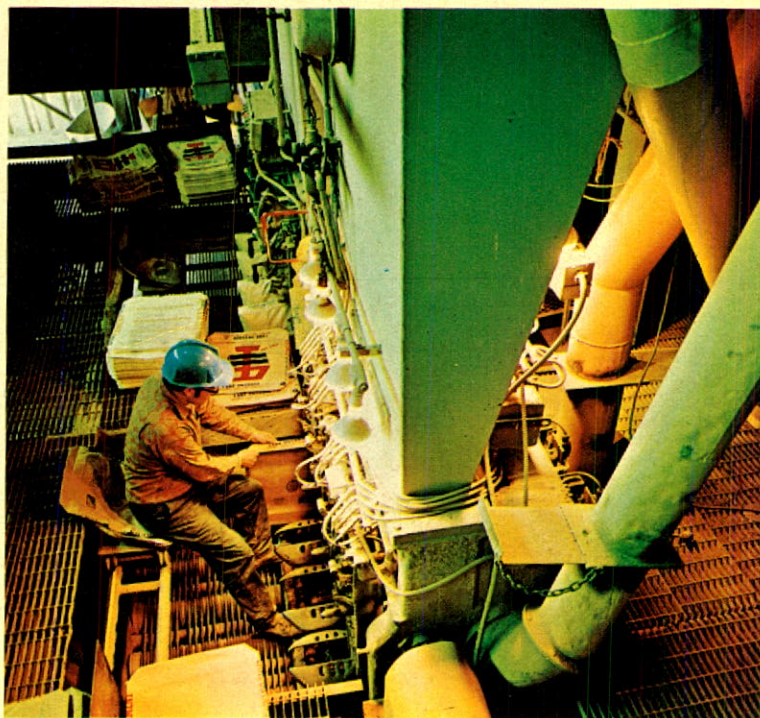


The Company is in the forefront of cement plants in North America in its standards of air management and to date has spent over \$1,000,000 on control equipment. A further half million dollars will be spent in 1972, and with this expenditure the plant will meet the required standards set by the Ontario Government Air Management Regulations.

Finished cement is stored in large silos and is distributed to customers in bulk or in bags. The Company has major storage depots in Picton, Windsor, and Toronto in Ontario, and through its U.S. subsidiary, at Rome, Ithaca and Rochester in New York State. Bagging operations are located in Picton, Toronto, Rome and Rochester.



These depots are served by all major forms of transportation—road, rail, and ship, with the bulk of the Company's cement being shipped by two lake carriers. The M V Metis with a capacity of 6,000 tons, supplies Rochester, Toronto and Windsor, and the M V Day



Peckinpaugh with a capacity of 1,600 tons, supplies Rochester, and through the New York State barge canal, Rome and Ithaca. Cement is delivered to customers by both truck and rail, with the majority of shipments made by trucks.

The Company is using advanced data processing equipment and techniques to improve its knowledge of the cement market and its customer needs. The Company has a central computer operation located at its head office at Toronto, and has recently upgraded this operation with the installation of a Honeywell 110 computer utilizing discs for storage and processing data. This central computer facility processes accounting and financial data for all the Company's operations, and, in addition, develops key statistical data for marketing and manufacturing operations. The Company is also conducting studies with computer service companies to devise simulation models of the operations of its divisions.



LAKE ONTARIO CEMENT LIMITED

and subsidiary companies

CONSOLIDATED BALANCE SHEET

As at December 31, 1971 (with corresponding figures for 1970)

ASSETS

CURRENT ASSETS

	1971	1970
Cash and short-term deposits - - - - -	\$ 1,353,845	\$ 325,164
Accounts receivable - - - - -	3,573,791	3,469,996
Inventories, at cost		
Finished and semi-processed products - - - - -	1,356,946	1,331,241
Raw materials and supplies - - - - -	2,124,447	1,640,332
Prepaid expenses - - - - -	79,244	94,896
	<u>\$ 8,488,273</u>	<u>\$ 6,861,629</u>

NON CURRENT ACCOUNTS RECEIVABLE AND OTHER ITEMS - - - - -	<u>\$ 213,305</u>	<u>\$ 282,201</u>
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INVESTMENTS

Primeau Argo Block Co. Limited, at cost - - - - -	<u>\$ 242,000</u>	<u>\$ 242,000</u>
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FIXED ASSETS—AT COST

Property, plant and equipment - - - - -	\$43,169,208	\$41,968,389
Less—Accumulated depreciation and depletion (depletion 1971, \$390,497 ; 1970, \$333,794)	16,456,727	14,583,533
	<u>\$26,712,481</u>	<u>\$27,384,856</u>

DEFERRED CHARGES

Unamortized debenture discount and expense - - - - -	\$ 153,402	\$ 19,824
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APPROVED ON BEHALF OF THE BOARD

W. H. Evans, *Director*

C. F. W. Burns, *Director*

<u>\$35,809,461</u>	<u>\$34,790,510</u>
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LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Bank loan—secured - - - - -	\$ —	\$ 5,070,000
Accounts payable and accrued liabilities- - - - -	1,650,849	2,075,320
Income taxes payable - - - - -	1,066,010	—
Long-term debt due within one year - - - - -	201,950	93,526
	<u>\$ 2,918,809</u>	<u>\$ 7,238,846</u>
LONG-TERM DEBT (Note 2)		
9¼% Debenture due June 30, 1991 - - - - -	\$10,500,000	\$ —
5½% redeemable sinking fund Debentures due June 30, 1971 - - - - -	—	6,395,400
5½% mortgage repayable quarterly to September 5, 1972 - - - - -	—	34,506
8% notes repayable annually to January 31, 1976 - - - - -	455,000	625,000
	<u>\$10,955,000</u>	<u>\$ 7,054,906</u>
DEFERRED INCOME TAXES (Note 5) - - - - -	<u>\$ 2,370,000</u>	<u>\$ 2,201,000</u>

SHAREHOLDERS' EQUITY**CAPITAL STOCK**

Common shares, par value \$1 each (Notes 3 and 4)—

Authorized—5,000,000 shares

Issued and outstanding—4,223,461 shares - - - - - \$ 4,223,461 \$ 4,223,461

CONTRIBUTED SURPLUS - - - - - 4,737,161 4,737,161

RETAINED EARNINGS (Note 5) - - - - - 10,605,030 9,335,136

\$19,565,652 \$18,295,758\$35,809,461 \$34,790,510

LAKE ONTARIO CEMENT LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31

	1971	1970
Billings to customers, less discounts and taxes - - - - -	\$26,443,457	\$22,617,173
Cost of sales - - - - -	20,658,668	18,245,589
Gross profit on sales - - - - -	\$ 5,784,789	\$ 4,371,584
Selling, general and administrative expenses - - - - -	\$ 2,273,382	\$ 2,197,772
Interest on long-term debt - - - - -	749,210	462,965
Interest on bank loan - - - - -	210,509	581,681
Amortization of debenture discount and expense - - - - -	26,794	39,648
	<u>\$ 3,259,895</u>	<u>\$ 3,282,066</u>
OPERATING PROFIT - - - - -	\$ 2,524,894	\$ 1,089,518
Provision for Income Taxes (Note 5)—Current - - - - -	\$ 1,086,000	\$ —
—Deferred - - - - -	169,000	555,000
	<u>\$ 1,255,000</u>	<u>\$ 555,000</u>
NET EARNINGS FOR THE YEAR - - - - -	<u>\$ 1,269,894</u>	<u>\$ 534,518</u>
NET EARNINGS PER COMMON SHARE - - - - -	<u>30.1¢</u>	<u>12.7¢</u>

	1971	1970
Depreciation included above	\$1,982,994	\$1,946,095
Depletion included above	56,703	44,704
Total	<u>\$2,039,697</u>	<u>\$1,990,799</u>

LAKE ONTARIO CEMENT LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31

	1971	1970
Retained earnings at beginning of year (Note 5) - - - - -	\$ 9,335,136	\$ 8,800,618
Net earnings for the year - - - - -	1,269,894	534,518
Retained earnings at end of year - - - - -	<u>\$10,605,030</u>	<u>\$ 9,335,136</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31

	1971	1970
SOURCE OF FUNDS		
Current operations		
Net earnings for the year - - - - -	\$ 1,269,894	\$ 534,518
Depreciation and depletion - - - - -	2,039,697	1,990,799
Loss on disposal of fixed assets - - - - -	13,614	8,932
Income taxes, deferred - - - - -	169,000	555,000
Amortization of debenture discount and expense - - - - -	26,794	39,648
	<u>\$ 3,518,999</u>	<u>\$ 3,128,897</u>
Proceeds on disposal of fixed assets - - - - -	46,894	48,743
Issue of 8% notes - - - - -	—	625,000
Issue of 9% debenture—less expense - - - - -	10,339,628	—
Non current accounts receivable and other items - - - - -	68,896	58,190
	<u>\$13,974,417</u>	<u>\$ 3,860,830</u>
APPLICATION OF FUNDS		
Additions to fixed assets - - - - -	\$ 1,427,830	\$ 1,254,852
Reduction in long-term debt - - - - -	6,599,906	97,758
	<u>\$ 8,027,736</u>	<u>\$ 1,352,610</u>
INCREASE IN WORKING CAPITAL - - - - -	\$ 5,946,681	\$ 2,508,220
WORKING CAPITAL AT BEGINNING OF YEAR - - - - -	(377,217)	(2,885,437)
WORKING CAPITAL AT END OF YEAR - - - - -	<u>\$ 5,569,464</u>	<u>(\$ 377,217)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Lake Ontario Cement Limited and its wholly-owned subsidiary companies.

Accounts maintained in United States funds have been converted to Canadian funds at appropriate rates of exchange.

2. LONG TERM DEBT

During the year the Company issued a 9% secured debenture in the amount of \$10,500,000, maturing June 30, 1991 and repayable in annual installments of \$583,000 commencing June 30, 1974. This debenture is secured by a first mortgage on the manufacturing facilities in Picton, a first floating charge on substantially all of the Company's assets not subject to the above-mentioned first mortgage and a pledge of the shares of the Company's wholly-owned subsidiaries. The loan agreement providing for the issuance of this debenture restricts the payment of dividends to 50% of post 1970 consolidated net earnings and requires that consolidated net tangible assets shall not be less than \$15,000,000 after the payment of any such dividends.

The 8% notes in the amount of \$625,000 are partially, secured by a mortgage of \$420,000. The notes are payable on January 31 of each year as follows: 1972, \$170,000, 1973, \$200,000, 1974-5-6, \$85,000 each year.

3. CAPITAL STOCK

At December 31, 1971, 31,500 common shares were reserved in connection with the options referred to in Note 4.

4. OPTIONS TO PURCHASE COMMON SHARES

During the year no options were either granted or exercised.

Incentive Stock Option Plan

Under the terms of the incentive stock option plan, there were outstanding as at December 31, 1971 options to purchase 3,000 shares at \$3.00 per share and 11,500 shares at \$5.00 per share. In all cases, the option price was not less than the approximate fair market value at date of grant. Of these outstanding options 3,000 shares at \$3.00 per share and 3,000 shares at \$5.00 per share were granted to officers of the Company. These options expire ten years after date of grant. Options covering 3,000 shares at \$3.00 per share and 11,500 shares at \$5.00 per share were exercisable at December 31, 1971. No further options may be granted under the plan.

Other Options

An option was granted to a former officer and director of the Company in 1965 for the purchase of 8,000 common shares at \$5.00 per share. All of the shares were exercisable at December 31, 1971. This option expires on September 30, 1972.

Options were granted to employees in 1969 who are not directors of the Company, to purchase 9,000 shares at \$5.00 per share. Of these outstanding options 4,000 shares at \$5.00 per share were granted to an officer of the Company. These options which expire on January 29, 1979, are exercisable as to 40% of the shares involved after one year and a further 20% per year after each of the three succeeding years. Options covering 5,400 shares were exercisable at December 31, 1971.

5. INCOME TAXES

Of the \$1,255,000 income taxes charged against earnings, \$169,000 has been deferred because it is the Company's intention to claim capital cost allowances in excess of depreciation charged in the accounts.

The total deferred income taxes to December 31, 1971 are \$6,492,000 of which \$4,122,000 is not recorded in the accounts. Until December 31, 1967 deferred income taxes were reported by note to the financial statements. On January 1, 1968, the Company changed its method and recorded subsequent deferred income taxes in the accounts. The accumulated deferred income taxes from January 1, 1968 are \$2,370,000 which amount appears on the consolidated balance sheet.

6. REMUNERATION OF DIRECTORS AND OFFICERS

As defined in the Canada Corporations Act, for the year ended December 31, 1971, thirteen directors received aggregate remuneration of \$19,218 as directors; eight officers, four of whom are also directors, received aggregate remuneration of \$160,390 as officers.

As defined in the Ontario Securities Act, aggregate remuneration of directors and senior officers totalled \$168,608.

7. LEASE AGREEMENTS

The Company has existing agreements to lease land, buildings, equipment and shipping facilities, the minimum annual aggregate rentals for which total approximately \$680,000.

8. PENSION PLANS

Based on current actuarial reports, unfunded past service liabilities which amounted to \$447,421 at December 31, 1971, are required to be funded over the next 19 years.

The total charge against operations in 1971 with respect to these liabilities amounted to \$39,764 including interest.

AUDITORS' REPORT

To the Shareholders of Lake Ontario Cement Limited

We have examined the consolidated balance sheet of Lake Ontario Cement Limited and its subsidiary companies as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Lake Ontario Cement Limited and its subsidiary companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 11, 1972.

EDDIS & ASSOCIATES
Chartered Accountants.

LAKE ONTARIO CEMENT LIMITED

and subsidiary companies

TEN YEAR FINANCIAL SUMMARY

	13 mos. ended December 31, 1962	1963	1964
Billings to customers, less discounts and taxes - - - - -	\$9,764,142	\$11,426,615	\$14,782,773
Cost of sales - - - - -	<u>7,615,697</u>	<u>8,528,020</u>	<u>10,935,943</u>
	\$2,148,445	\$ 2,898,595	\$ 3,846,830
Selling, general and administrative expenses - - - - -	\$ 856,160	\$ 1,104,675	\$ 1,342,056
Interest on borrowed funds - - - - -	745,497	765,179	738,914
Amortization of debenture discount and expense - - - - -	<u>43,638</u>	<u>40,281</u>	<u>44,084</u>
	\$1,645,295	\$ 1,910,135	\$ 2,125,054
Operating profit - - - - -	\$ 503,150	\$ 988,460	\$ 1,721,776
Extraordinary gain/(loss) on disposal of fixed assets (net) - - -			
Earnings before provision for income taxes - - - - -	\$ 503,150	\$ 988,460	\$ 1,721,776
Provision for income taxes - - - - -	<u>322,000</u>	<u>374,000</u>	<u>987,000</u>
Net earnings for the period - - - - -	<u>\$ 181,150</u>	<u>\$ 614,460</u>	<u>\$ 734,776</u>
Number of common shares outstanding - - - - -	2,779,526	3,248,286	3,248,636
Earnings per common share - - - - -	2.9¢	16.0¢	19.7¢
Equity per common share (after full provision for income taxes) - -	\$ 1.60	\$ 1.86	\$ 2.00
Source of funds			
Net earnings for period - - - - -	\$ 181,150	\$ 614,460	\$ 734,776
Income taxes—deferred - - - - -	322,000	374,000	987,000
Depreciation and other non-cash outlay charges - - - - -	<u>897,494</u>	<u>1,080,818</u>	<u>1,054,159</u>
	\$1,400,644	\$ 2,069,278	\$ 2,775,935
Issue of common shares - - - - -	661,762	1,171,900	1,225
Proceeds from long-term debt - - - - -		<u>1,000,000</u>	
	<u>\$2,062,406</u>	<u>\$ 4,241,178</u>	<u>\$ 2,777,160</u>
Application of funds			
Reduction in long-term debt- - - - -	\$ 851,750	(\$ 678,250)	\$ 279,990
Additions to property, plant and equipment (net) - - - - -	1,519,985	755,794	4,059,605
Acquisition of Premier Building Materials Limited - - - - -		2,998,933	
Investment in Primeau Argo Block Co. Limited- - - - -		132,000	110,000
Non current accounts receivable and other items - - - - -			
Dividends paid on preferred shares - - - - -		164,440	281,896
Redemption of preferred shares - - - - -			
	<u>\$2,371,735</u>	<u>\$ 3,372,917</u>	<u>\$ 4,731,491</u>
Increase/(Decrease) in working capital - - - - -	<u>(\$ 309,329)</u>	<u>\$ 868,261</u>	<u>(\$ 1,954,331)</u>
Working capital - - - - -	<u>\$1,726,296</u>	<u>\$ 2,594,557</u>	<u>\$ 640,226</u>

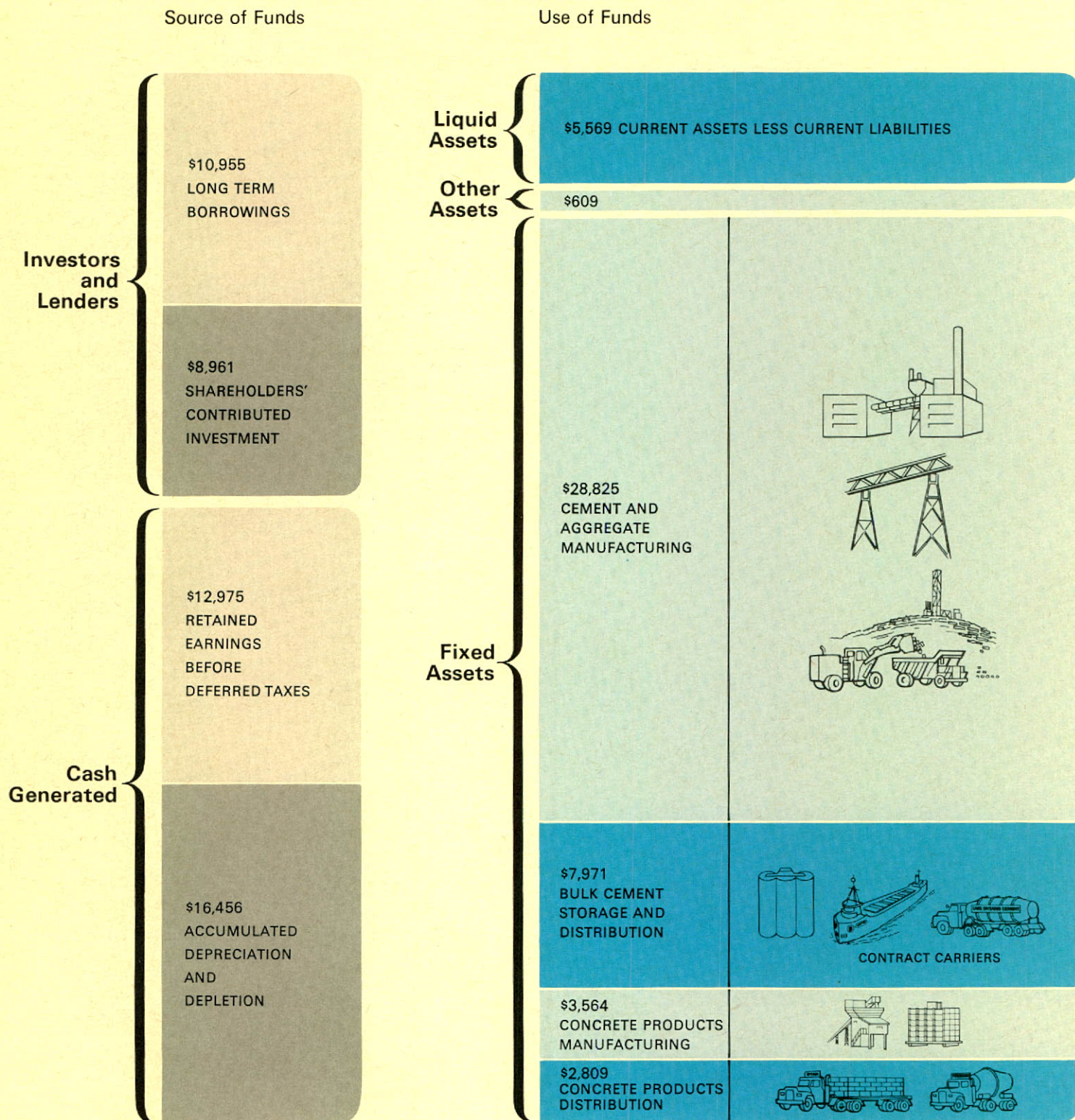
Years ended December 31

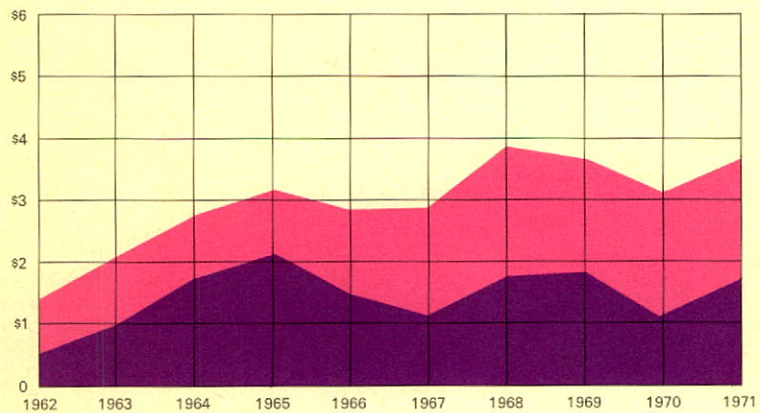
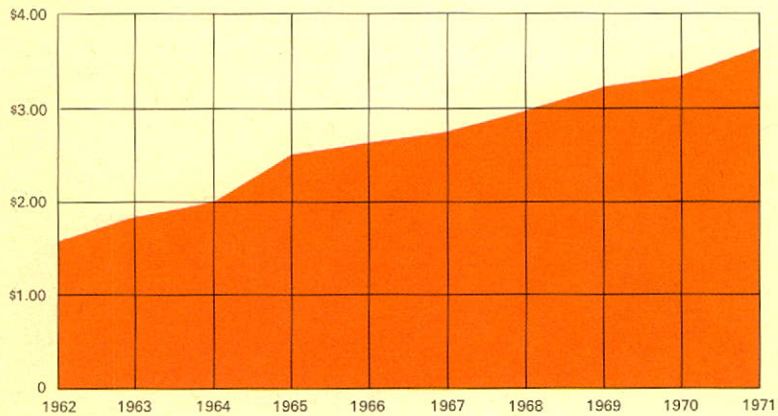
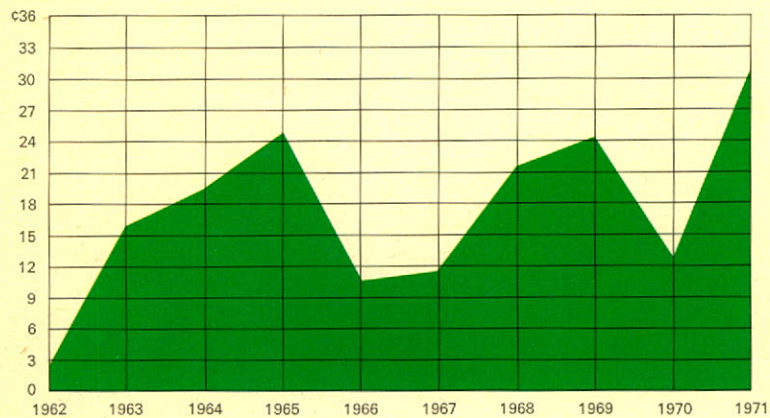
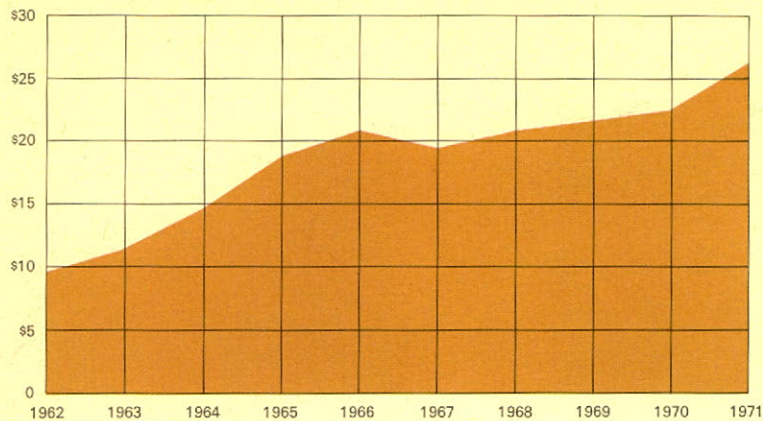
1965	1966	1967	1968	1969	1970	1971
\$18,844,289	\$20,839,095	\$19,541,937	\$20,930,550	\$21,735,902	\$22,617,173	\$26,443,457
14,265,624	16,825,367	15,297,670	15,674,045	16,650,988	18,245,589	20,658,668
\$ 4,578,665	\$ 4,013,728	\$ 4,244,267	\$ 5,256,505	\$ 5,084,914	\$ 4,371,584	\$ 5,784,789
\$ 1,707,400	\$ 1,819,103	\$ 1,981,361	\$ 2,071,337	\$ 2,164,190	\$ 2,197,772	\$ 2,273,382
727,710	714,261	1,108,762	1,168,999	1,134,459	1,044,646	959,719
39,960	39,648	39,648	39,648	39,648	39,648	26,794
\$ 2,475,070	\$ 2,573,012	\$ 3,129,771	\$ 3,279,984	\$ 3,338,297	\$ 3,282,066	\$ 3,259,895
\$ 2,103,595	\$ 1,440,716	\$ 1,114,496	\$ 1,976,521	\$ 1,746,617	\$ 1,089,518	\$ 2,524,894
			(216,784)	86,737		
\$ 2,103,595	\$ 1,440,716	\$ 1,114,496	\$ 1,759,737	\$ 1,833,354	\$ 1,089,518	\$ 2,524,894
1,074,000	988,000	621,000	845,000	805,000	555,000	1,255,000
\$ 1,029,595	\$ 452,716	\$ 493,496	\$ 914,737	\$ 1,028,354	\$ 534,518	\$ 1,269,894
4,154,243	4,192,061	4,213,061	4,223,461	4,223,461	4,223,461	4,223,461
24.8¢	10.8¢	11.7¢	21.7¢	24.3¢	12.7¢	30.1¢
\$ 2.52	\$ 2.65	\$ 2.77	\$ 2.99	\$ 3.23	\$ 3.36	\$ 3.66
\$ 1,029,595	\$ 452,716	\$ 493,496	\$ 914,737	\$ 1,028,354	\$ 534,518	\$ 1,269,894
1,074,000	988,000	621,000	845,000	805,000	555,000	169,000
1,082,642	1,406,160	1,773,047	2,123,683	1,854,041	2,039,379	2,080,105
\$ 3,186,237	\$ 2,846,876	\$ 2,887,543	\$ 3,883,420	\$ 3,687,395	\$ 3,128,897	\$ 3,518,999
1,119,087	167,931	63,750	31,200			
		230,040			625,000	10,339,628
\$ 4,305,324	\$ 3,014,807	\$ 3,181,333	\$ 3,914,620	\$ 3,687,395	\$ 3,753,897	\$13,858,627
\$ 1,051,750	\$ 1,651,750	\$ 1,909,260	\$ 1,897,758	\$ 97,758	\$ 97,758	\$ 6,599,906
4,894,735	4,265,008	2,179,551	1,330,048	1,956,401	1,206,109	1,380,936
	74,400	(30,226)	335,984	(35,767)	(58,190)	(68,896)
4,612						
46,120						
\$ 5,997,217	\$ 5,991,158	\$ 4,058,585	\$ 3,563,790	\$ 2,018,392	\$ 1,245,677	\$ 7,911,946
(\$ 1,691,893)	(\$ 2,976,351)	(\$ 877,252)	\$ 350,830	\$ 1,669,003	\$ 2,508,220	\$ 5,946,681
(\$ 1,051,667)	(\$ 4,028,018)	(\$ 4,905,270)	(\$ 4,554,440)	(\$ 2,885,437)	(\$ 377,217)	\$ 5,569,464

LAKE ONTARIO CEMENT LIMITED

EMPLOYMENT OF FUNDS AS AT DECEMBER 31, 1971

(Dollars expressed in thousands)



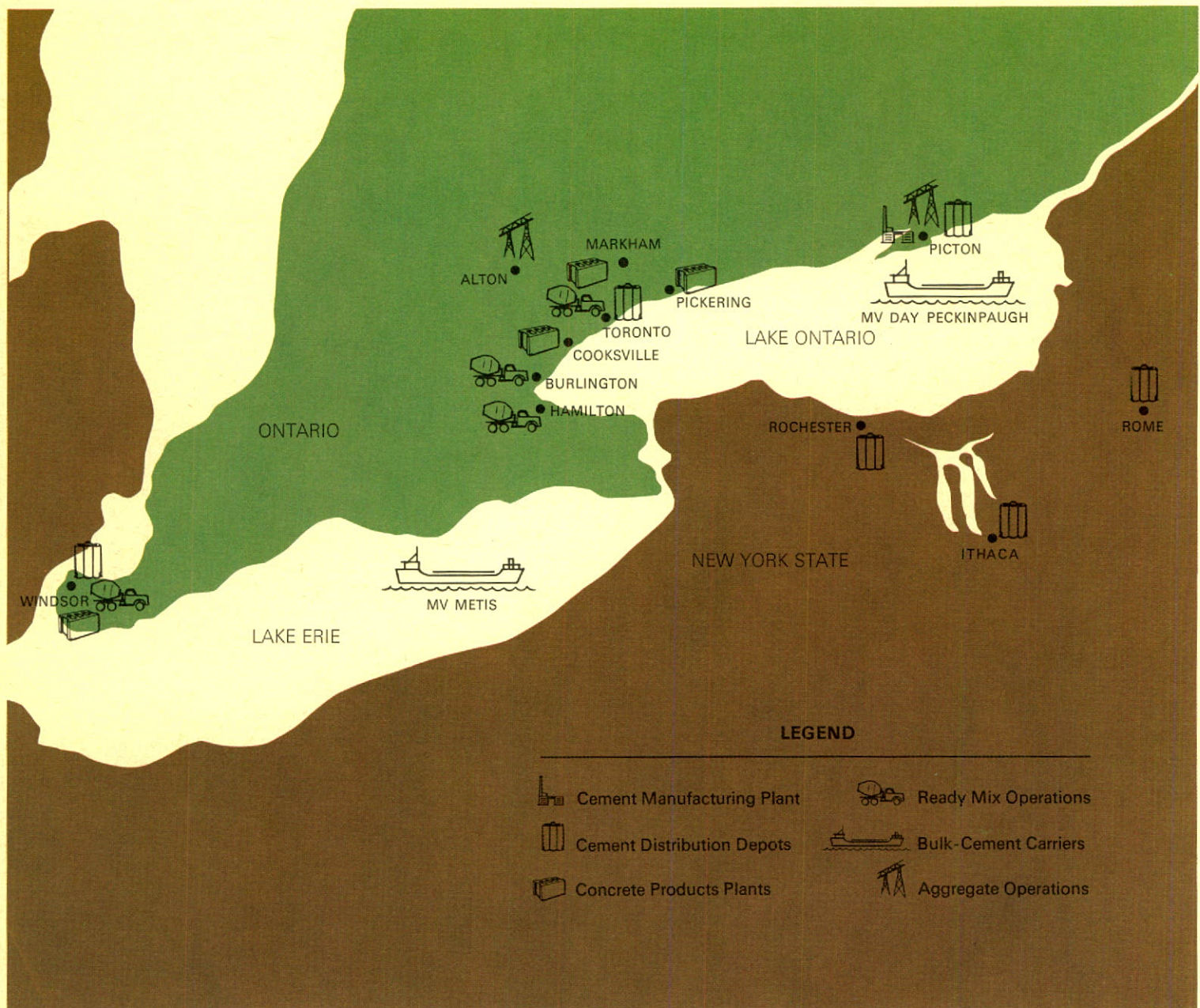


LAKE ONTARIO CEMENT LIMITED

subsidiary and associated companies

MANUFACTURING AND DISTRIBUTION

FACILITIES



LAKE ONTARIO CEMENT LIMITED

Canadian Cement Division

2 Carlton Street, Toronto 2, Ontario.

J. D. Fowler - - - - - *Executive Vice-President*
B. T. Price - - - - - *Vice-President—Operations*
R. M. Mitchell - - - - - *Sales Manager*
W. F. Behan - - - - - *General Credit Manager*

Cement Manufacturing Plant:
Highway 49, Picton, Ontario

Sales Office:
2 Carlton Street, Toronto 2, Ontario

Toronto Distribution Plant:
312 Cherry Street, Toronto 249, Ontario

Windsor Distribution Plant:
210 Detroit Street, Windsor, Ontario.

Concrete Products Division

2 Carlton Street, Toronto 2, Ontario.

J. D. Fowler - - - - - *Executive Vice-President*
H. P. Oldham - - - - - *Manager—Marketing*

PREMIER CONCRETE PRODUCTS—
Toronto and Hamilton area
132 Toro Road, Downsview, Ontario.

A. S. Frayne - - - - - *Sales Manager, Toronto*
R. D. Glashan - - - - - *Sales Manager, Hamilton*
C. B. Rowntree - - - - - *Operations Manager*

RYANCRETE-STERLING PRODUCTS—
Windsor Area
5115 E. C. Row Avenue, Windsor 19, Ontario

R. K. Post - - - - - *Sales Manager*
N. J. Ray - - - - - *Operations Manager*

Wholly-Owned Subsidiary

ROCHESTER PORTLAND CEMENT CORP.
361 Boxart Street, Rochester, New York 14612

Divisions

Mohawk Valley Cement Company
Cayuga Cement Company

W. H. Evans - - - - - *Chairman of the Board*
J. D. Fowler - - - - - *President*
R. L. Forde - - - - - *Vice-President and General Manager*
D. R. T. White - - - - - *Vice-President Finance
and Secretary-Treasurer*
A. F. Heindorf - - - - - *Sales Manager*

Associated Company

PRIMEAU ARGO BLOCK CO. LIMITED
170 Brockport Drive, Rexdale, Ontario

A. J. Primeau - - - - - *President*
R. H. Grimm - - - - - *Executive Vice-President
and General Manager*
W. A. Primeau - *Vice-President and Operations Manager*
W. C. Coupland - - - - - *Secretary-Treasurer*

LAKE ONTARIO CEMENT



CANADA



PREMIER CONCRETE
PRODUCTS



RYANCRETE-STERLING
PRODUCTS



PRIMEAU ARGO BLOCK

UNITED STATES



ROCHESTER PORTLAND
CEMENT



MOHAWK VALLEY CEMENT



CAYUGA CEMENT

