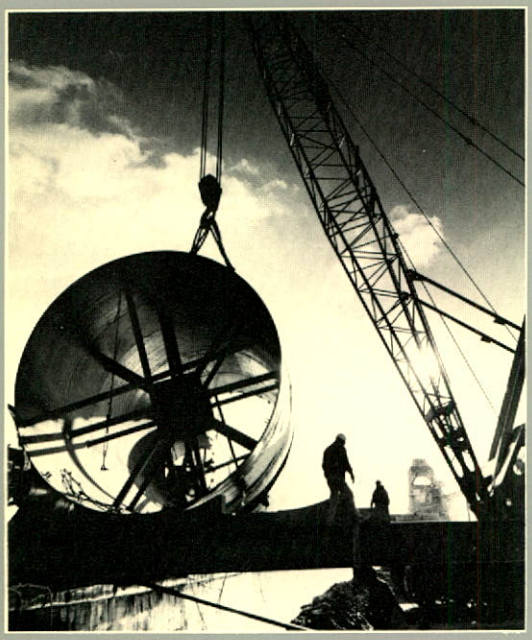
ANNUAL REPORT 1982

Lake Ontario Cement Limited

25



A section of the kiln shell for the world-class pre-heater kiln expansion in 1975 is hoisted into position for welding at the Picton, Ontario plant.

Our First Quarter Century

Lake Ontario Cement Limited was formed in 1956 and began commercial operations in 1958 manufacturing cement and servicing the Ontario and Western New York State markets.

In that first year of production, 25 years ago, sales of the single, local plant amounted to less than $2 million and the annual statement showed a net loss of just under $1.2 million.

But the fledgling operation was not long in charting a growth course. In the second year, sales soared to almost $5 million and the net loss was pared to $457,523. Another jump in sales in 1960 to $6.9 million enabled the Corporation to turn its first profit — a modest but encouraging $207,297. From that point onward, the dollar volume of sales improved steadily, surpassing $20 million by the mid-1960's, and net earnings topped $2 million in 1965. Over the first nine years of operations, the investment in plant, equipment and properties rose from $15.7 million to $37.2 million.

A significant step in the growth of Lake Ontario Cement Limited was the purchase by Denison Mines Limited in February, 1961 of a substantial equity position in the Corporation. As a result of this new association, the Corporation was able to acquire in 1963 Premier Building Materials Limited, a substantial ready-mixed concrete company in Ontario. In addition, the Picton cement plant was doubled in capacity in 1965.

With the support of Denison Mines Limited, Lake Ontario was in a strong position to launch a major programme of diversification and growth. In 1971, refinancing was carried out to put in place a long-range plan of new capital projects, acquisitions and growth. In 1975, the Picton cement plant was doubled again in size and a pre-heater kiln was installed to bring the plant to world-class standards.

In the early 1970's a new concrete products division was formed to oversee the Corporation's ready-mixed concrete, concrete block and aggregate operations. Ready-mixed concrete plants were acquired or built in the Toronto, Ottawa, Windsor and Oshawa areas and Primeau Argo Block was purchased. In 1977 a cement grinding plant was purchased in Michigan to expand the Corporation's cement market.

In 1981 acquisitions significantly enlarged the Corporation's scope of operations in concrete pipe and related products. In 1982 the acquisition of KVN Ready-Mix Concrete was completed and an agreement signed for the purchase and conversion of a vessel to serve as a Great Lakes cement carrier.

Those were just some of the landmarks over 25 years — a quarter century of growth from a small local cement plant to a corporation of substance and stability, — with 26 modern and efficient facilities in two provinces and two states, with sales exceeding $100 million and assets of $105 million, and a high reputation in the industry and in financial markets.

As the only Canadian-controlled public cement corporation, and with the support of its majority shareholder Denison Mines Limited, Lake Ontario is committed to a strategy of profitable growth in the cement, concrete and building materials business.

FINANCIAL HIGHLIGHTS

for the year ended December 31	1982	1981
Financial		
Sales	**$102,509,487**	$114,925,185
Net earnings for the year	**810,070**	4,736,800
Funds provided from current operations	**6,428,506**	9,855,165
Capital expenditures	**5,158,621**	4,124,613
Working capital	**24,925,820**	16,427,677
Long-term debt (non-current portion)	**30,519,892**	18,947,464
Shareholders' equity	**43,429,151**	44,772,311
Per common share		
Net earnings	**$0.19**	$1.10
Funds provided from current operations	**1.49**	2.29
Dividends	**0.50**	0.50
Shareholders' equity	**9.13**	9.44
Statistical data		
Number of common shareholders	**2,645**	2,769
Number of common shares outstanding	**4,306,461**	4,306,461

Quarterly sales and net earnings

(dollars in thousands except per share)

	Sales		Net earnings or (loss)		Net earnings or (loss) per share	
	1982	1981	**1982**	1981	**1982**	1981
1st quarter	**$ 13,420**	$ 10,591	**$(3,190)**	$(2,464)	**$(0.74)**	$(0.57)
2nd quarter	**28,653**	34,164	**449**	2,809	**0.10**	0.65
3rd quarter	**33,095**	40,531	**1,750**	3,049	**0.41**	0.71
4th quarter	**27,341**	29,639	**1,801**	1,343	**0.42**	0.31
	$102,509	$114,925	**$ 810**	$ 4,737	**$ 0.19**	$ 1.10

CONTENTS

While some positive signs were evident in late 1982, the year overall was one of generally severe economic strains, marked by declines in production, employment and construction activity, by persistent inflation and high interest rates.

The downturn affected all of your Corporation's market areas to varying degrees. However, the geographic positioning of the Corporation, aggressive marketing programmes and continuing improvement in cost efficiencies all helped to lessen some of the worst impacts of the recession.

Consolidated sales were $102,509,487 for the 12 months ended December 31, 1982, a decline of about 11 per cent from the previous year's $114,925,185. The decline in sales was accounted for principally by lower volumes in cement shipments. Sales of concrete products were generally at 1981 levels.

Consolidated net earnings for 1982 were $810,070 ($0.19 per share) compared with $4,736,800 ($1.10 per share) in 1981. Fourth quarter results in 1982 were particularly encouraging. Although earnings in each of the first three quarters were less than those realized in 1981, the fourth quarter net earnings of $1,801,000 were substantially better than the $1,343,000 achieved in the same period in 1981.
While the fourth quarter results are not indicative of a turnaround in the economy, they do reflect the actions taken by the Corporation to reduce costs and improve productivity.

Earnings in 1982 were eroded by depressed market conditions in most market areas, including Michigan, New York State and the industrial cities of Ontario, and by declining margins, particularly in our pipe business, and higher interest costs.

Cement shipments by the Corporation in total declined some 24 per cent from the low levels of 1981 and there were reduced volumes in all market areas. However, market shares remained relatively constant compared with 1981 levels. Michigan continued to experience very poor economic conditions, while the slump in construction in Ontario adversely affected shipments. The market in western New York State declined more moderately.

The Building Products Group proved to be a relatively strong segment of our business in 1982. Despite overall sluggishness in the economy, sales for this group were approximately at 1981 levels. This strength was due, in the main, to a determined marketing effort in concrete brick and ready-mixed concrete, particularly in the active markets of Metropolitan Toronto and Ottawa.

The Pipe Group's sales in 1982 were about the same as 1981 levels. It should be noted, however, that the 1981 sales were realized over the eight-month period of ownership compared to 12 months in 1982. This decline in comparative sales reflects the downturn in land development for residential housing and commercial construction.

Acquisition

An agreement was reached in November for the acquisition of the assets of KVN Ready-Mix Concrete, a division of Kilmer Van Nostrand Co. Limited. KVN is one of the largest independent concrete producers in Ontario and operates three plants in the Metropolitan Toronto area.

KVN will be operated as one of the divisions of Lake Ontario Cement Limited and will further enhance the Corporation's position in Metropolitan Toronto — one of the major construction markets in North America. At the same time, KVN customers will derive major benefits from access to the broader range of concrete products supplied by the Corporation.

Transportation

In late 1982 the lake freighter "Fort William" was purchased from the CSL Group Inc. for conversion to a Great Lakes cement carrier. Total cost of the vessel and the conversion will be approximately $8 million.

Conversion work is expected to be completed in July 1983. When converted the "Fort William" will have a capacity of 8,500 tons of cement and will be the most modern and efficient cement carrier operating on the Great Lakes.

Capital Expenditures

Capital expenditures made by the Corporation during the year amounted to $5,158,621 up from $4,124,613 in the previous year. Capital expenditures have been restricted to those that are necessary to maintain productive capacity and to those which will lead to clear productivity gains. This policy will be continued until there are positive signs of economic recovery in our market areas.

Dividends

Dividends paid to shareholders in 1982 amounted to $2,153,230, the equivalent of 50 cents per share. Payments were made in April and October at the semi-annual rate of 25 cents per common share.

The payment of dividends in 1982, which were maintained at the same level as 1981, reflects the view of the Directors of the Corporation that it is important for shareholders to participate, on as regular a basis as possible, in the results of the operations of the Corporation. The dividend rate in 1983 will be based on economic conditions.

Financial Position

Working capital at December 31, 1982 was $24,925,820, compared with $16,427,677 at the end of the previous year. Cash flow from operations amounted to $6,428,506 in 1982, down from $9,855,165 in 1981, as a result of a decline in profitability. The lower cash flow from earnings was largely offset by reduced requirements to finance working capital and fund capital spending.

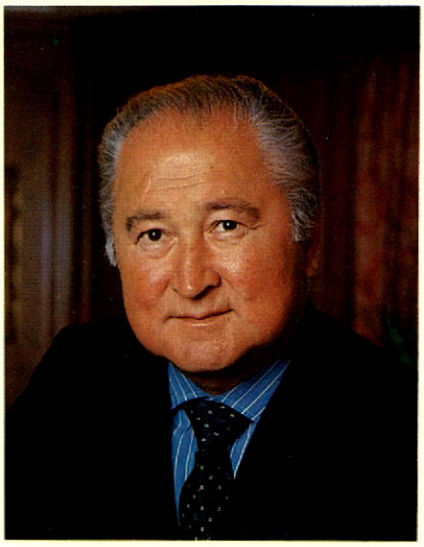
A total of $15,000,000 of current bank debt was refinanced to a long-term basis during the year. This was bank debt originally incurred to finance earlier acquisitions.

Business and Economic Outlook

The severity of the 1981-82 recession can be measured by the post-war record decline in consumer spending, corporate profits, business investment and employment. It is unlikely that there will be a quick, substantial recovery from these business conditions over the near term.

The beginning of a recovery in residential housing, however, will prove to be an important factor for the Corporation in 1983. Housing starts in Canada should show a gain from 135,000 in 1982 to about 169,000 in 1983, and housing starts in the United States are expected to rise from 1,050,000 to 1,356,000. This recovery will directly affect the Corporation's major markets and will be a positive factor for growth in both 1983 and 1984.

We anticipate moderate increases in cement consumption in Canada and the U.S. in 1983, although the Michigan market will likely remain depressed. Sales volumes for building products should increase because of the KVN acquisition and the market for our pipe products is expected to remain stable.



Stephen B. Roman, *Chairman of the Board.*

John D. Fowler, *President and Chief Executive Officer.*

Management foresees 1983, in general, as a transition period between recession and recovery, rather than the traditional first phase of a significant turnaround. For the longer term, we remain confident in the stability and growth potential of the cement industry in North America. The Corporation is committed to a strategy of profitable growth and has established a sound position of geographic and product diversification. It will pursue policies to enhance these strengths, with a view to participating fully in the economic recovery of the next few years.

Organization and Management

Important changes were made to our organizational and management structure in 1982. Our various operations have been consolidated into three groups — The Cement Group, The Pipe Group and The Building Products Group. Each group is the responsibility of a President and each is a profit centre in its own right.

Mr. Richard H. Grimm, President of The Building Products Group resigned from the Corporation at the end of 1982 to pursue other interests. Mr. Grimm became a principal of Argo Block Co. Limited in 1949, and from 1962 to 1980, he was a principal in Primeau Argo Block Co. Limited. Following the acquisition of this firm by Lake Ontario Cement Limited in 1980, Mr. Grimm served as President of The Building Products Group. In recognition of Mr. Grimm's substantial contribution and his continued interest in the affairs of the Corporation, he has been nominated to serve on the Board of Directors of Lake Ontario Cement Limited.

At the meeting of the Board of Directors on December 14, 1982, Mr. Charles D. Parmelee was appointed Vice-Chairman of the Corporation. Mr. Parmelee, Executive Vice-President, Denison Mines Limited, has been a director of Lake Ontario since 1972.

The Board of Directors expresses its appreciation of the dedicated work of all its employees during 1982, and is grateful to the many loyal customers who support the Corporation.

On behalf of the Board of Directors.

J.D. Fowler
President and Chief Executive Officer
January 11, 1983

Denis R.T. White, *Vice-President, Administration and Finance and Secretary.*

Lake Ontario Cement Limited is committed to a policy of expanding its product range and its geographic market areas. This strategy means that the Corporation will continue to seek the acquisition of sound, profitable, or potentially profitable, companies which will enlarge the Corporation's capability in the manufacture of cement, concrete products and building materials of all kinds.

The Corporation at present operates in the eastern Great Lakes region of North America. The Cement Group manufactures and sells cement in Ontario, and in the states of Michigan and New York. The Building Products Group (formerly the Premier Group) manufactures and distributes ready-mixed concrete, concrete block and concrete brick in Ontario. The Pipe Group makes and sells concrete pipe and related products in Ontario and Quebec.

Expansion and diversification may, in the future, extend markets beyond this region. However, the eastern Great Lakes will remain one of the strong, vital economic market areas of North America — containing over 30 million people and a wide range of manufacturing and industrial facilities strategically located to serve the major markets of eastern North America.

During the year, the Corporation undertook significant changes to its organizational structure, so as to decentralize many responsibilities to three operating Groups and to permit them to operate more clearly as profit centres.

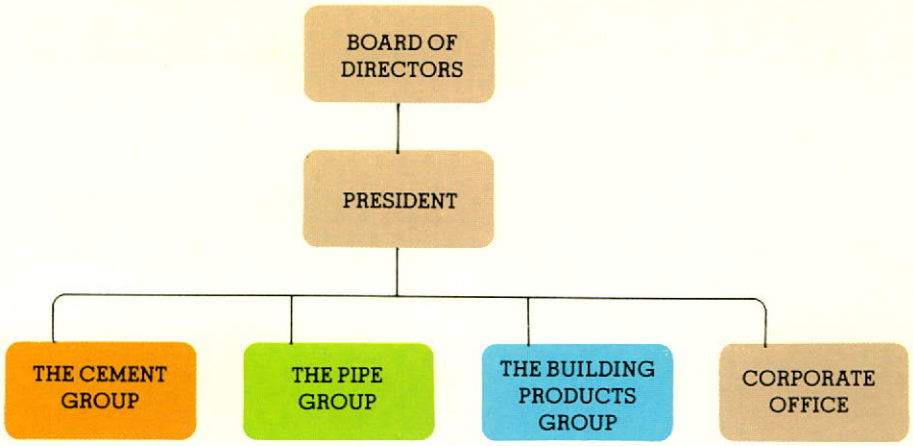
Mr. Joseph S. Pal is President of The Cement Group which includes Aetna Cement Corporation in Michigan and Rochester Portland Cement Corp. in New York state, both subsidiaries of Lake Ontario Cement Limited, and Lake Ontario Cement, a division of the Corporation, serving the Canadian market.

The Building Products Group (formerly the Premier Group) includes the operations of three divisions of the Corporation: Premier Concrete, Primeau Argo and KVN Concrete. The latter division was formed as a result of the Corporation's acquisition of the assets of KVN Ready-Mix Concrete in 1982. The assets acquired include three plants in the Metropolitan Toronto area and approximately 40 trucks. Mr. Richard H. Grimm, President of this Group, resigned at the end of the year to pursue a career in another field.

Mr. Ken Bruce is President of The Pipe Group. This Group includes Bestpipe and Duracon, both divisions of the Corporation, and Utility Vault Company of Canada Limited and Vibrapipe Ltée in Quebec, which are subsidiaries.

The reorganization of the corporate structure is a further step in planning for the years ahead. Each Group has been established as a profit centre, responsible for achieving a return on investment, handling its share of administrative and other expenses, and controlling its cash flow. This structure enables senior management to concentrate on corporate planning and strategy, while at the same time providing necessary staff services and exercising overall direction of the operating Groups.

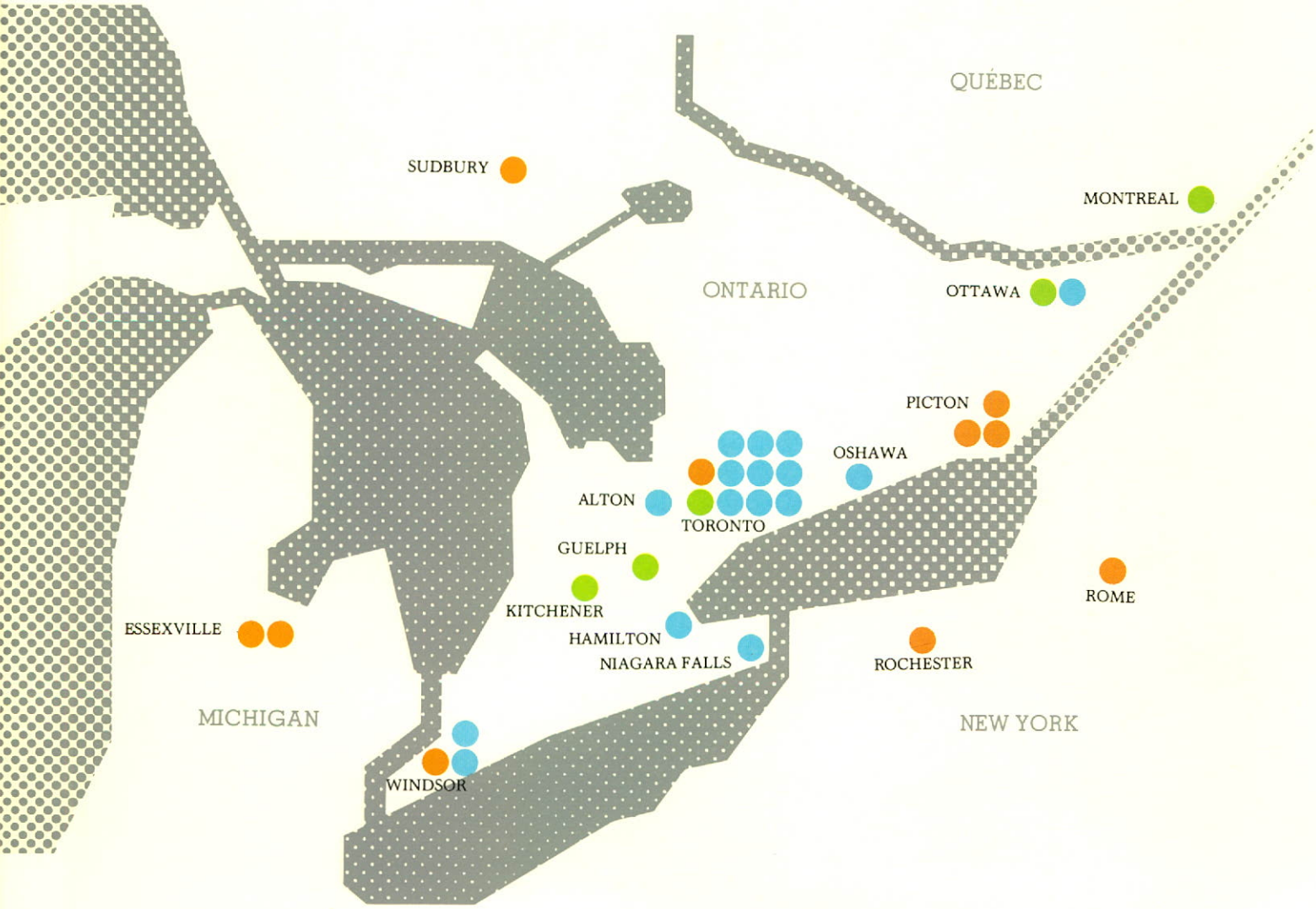
The Corporation continues to be optimistic about the long-term future of the cement industry, in both Canada and the United States. As economic recovery occurs in the mid-1980's, there will be significant increases in demand for cement and concrete products — not only in residential housing, but in public programmes to construct and reconstruct highways, streets and other infrastructures, and eventually renewed activity in the commercial and industrial sectors.



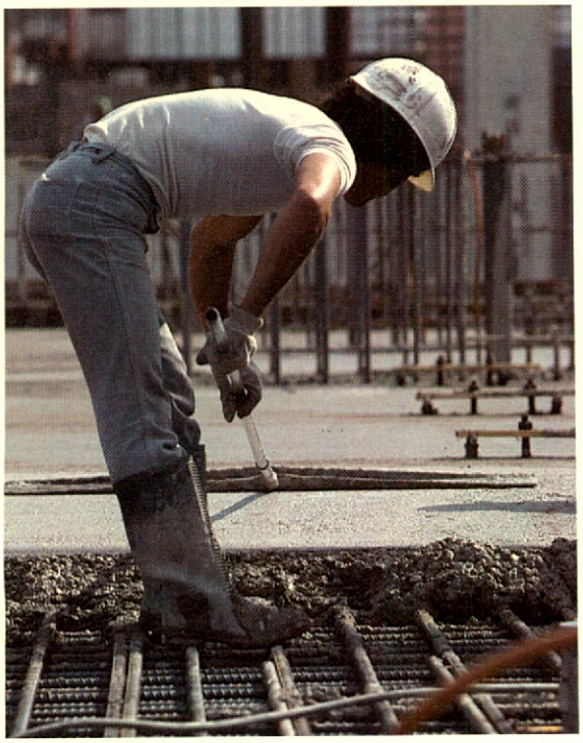
- Lake Ontario Cement *(division)*
- Aetna Cement Corporation *(subsidiary)*
- Rochester Portland Cement Corp. *(subsidiary)*

- Bestpipe *(division)*
- Duracon *(division)*
- Utility Vault Company of Canada Limited *(subsidiary)*
- Vibrapipe Ltée. *(subsidiary)*

- Premier Concrete *(division)*
- Primeau Argo *(division)*
- KVN Concrete *(division)*



A night view of the cement plant at Picton, Ontario. It is one of the largest cement manufacturing facilities in North America. It has an annual production capacity of 1.3 million tons.



Finishing of concrete is performed on a floor of a modern building complex.

Trucks use the tunnel completed in 1982 to provide access to a new section of the limestone quarry at the Picton, Ontario facility. 35,000 tons of rock were removed to complete this 462 foot tunnel.

The Cement Group manufactures and supplies cement for markets in Ontario, and the states of Michigan and New York. Sales of The Cement Group in 1982 declined 26% from 1981 levels, reflecting the generally depressed economic environment.

Poor market conditions prevailed throughout 1982 as housing, heavy construction, industrial and commercial building all felt the impact of the economic recession. Cement shipments, as a result, were lower than in 1981. The following table illustrates changing demand in the market areas served by the Corporation.

Total Cement Market Demand

(000 tons)

	1981 Actual	1982 Estimated	1983 Estimated
Ontario	2,930	2,135	2,290
Western New York	843	745	789
Michigan	1,815	1,300	1,300

Cement production is centred at a 1.3 million ton plant at Picton, near the eastern end of Lake Ontario. The plant, with four kilns, is one of the largest cement manufacturing facilities on the continent. Advanced fuel and process technology is used in a large pre-heater kiln which can be fueled by either gas or coal. This kiln handles the majority of Picton production.

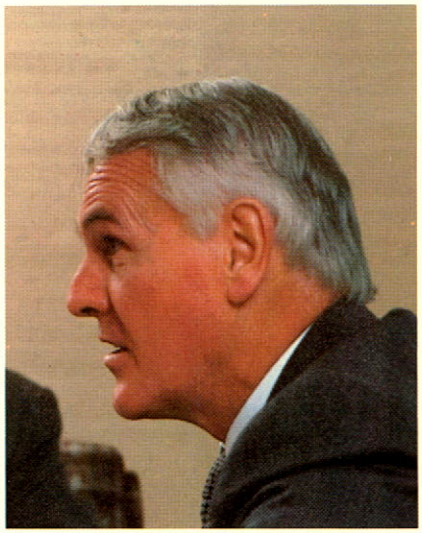
Cement from the Picton plant is shipped either directly to customers or through distribution depots at Toronto, Picton, Windsor and Coniston (near Sudbury).

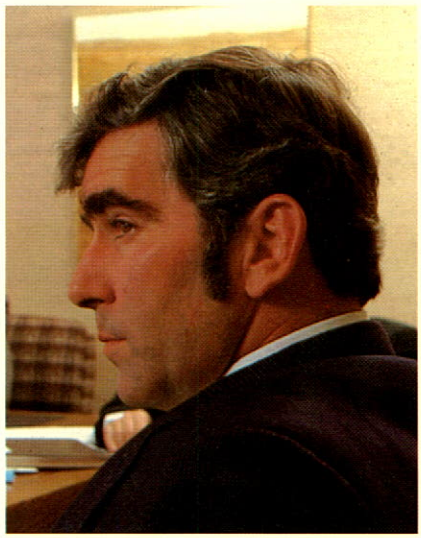
Cement consumption in Ontario declined in 1982 by some 27 per cent from the previous year as construction activity in most areas suffered severe contractions. For 1983, it would be reasonable to expect a moderate upturn in the latter half of the year. Interest costs have declined to more manageable levels and this may provide the necessary impetus for recovery in the housing market and in construction activity in general. A projected improvement in housing starts in Ontario should signal the beginning of a turnaround. However, it is difficult to foresee an immediate, substantial increase in cement markets, although we remain confident of worthwhile recovery in 1983 and beyond. The broad, essentially strong industrial base of the province suggests further growth in the mid-1980's.

Rochester Portland Cement Corp., a wholly-owned United States subsidiary, is a major distributor of cement in western New York State, obtaining product from the Picton plant. Recessionary conditions in the U.S. affected this market, and cement consumption declined by an estimated 12 per cent on a year-to-year basis. However, as interest rates declined there were signs of an initial recovery in U.S. housing activity. Although overall economic revival possibly will be slow in the first half of 1983, we look for more positive results in the latter half.

In Michigan, Aetna Cement Corporation, a wholly-owned subsidiary of Lake Ontario Cement Limited, produces Portland and masonry cements from clinker shipped from Picton. The Michigan market in 1982 dropped dramatically from 1981 levels, reflecting the poor performance of the automobile industry. Residential housing and other sectors of construction are at historically low levels. As a result, cement consumption in 1982, estimated at 1,300,000 tons was well below the volumes of the 1970's, and was the lowest since 1945. Depressed selling prices also were experienced. While a certain stability may be realized in 1983, it is unlikely that an important recovery will take place until there is dramatic improvement in the North American automobile industry.

Joseph S. Pal, *President, The Cement Group.*





John A. Clarke, *Vice-President, Cement Manufacturing.*

Ken Bruce, *President, The Pipe Group.*

A challenging and highly competitive market prevailed in 1982 for concrete pipe and related products. Sales volume was significantly affected by lower levels of housing development and industrial and commercial construction. Profit margins were adversely affected by severe price competition. While the Pipe Group's sales volume was essentially the same as that achieved in 1981, the 1981 volume was realized over an eight month period compared to 12 months in 1982.

The Group continued to consolidate the operations of four pipe and related product companies acquired in 1981. Bestpipe, Duracon, Vibrapipe Ltée and Utility Vault Company of Canada Limited, provide product and geographical diversification for the Corporation, and complement the manufacture and marketing of cement and other concrete building products.

The Pipe Group operates five plants at Kitchener, Guelph, Metcalfe and Mississauga in Ontario, and at Blainville in Quebec. The product lines include horizontal concrete pipe and fittings ranging up to 144-inches in diameter, manholes and catchbasins; vertical pipe for manholes and catchbasins; and precast reinforced concrete box sections for culverts, storm sewers, small bridge replacements and water course relocations.

These products are marketed to private sector land developers, contractors and municipalities. The sales trend of pipe and related products tends to be a leading indicator of residential and commercial construction activity, and of public projects as well.

The market should begin a gradual upturn in late 1983 as the inventory of serviced land is depleted, and as the residential sector leads the recovery phase of the construction cycle.

Over the long term, the necessary rehabilitation and upgrading of both sanitary and storm sewers afford a secure market base which should be enhanced by cyclical recovery in the mid 1980's. As well, the Group will seek to broaden that base through selective new product development.

Concrete pipes used for sewer and water main construction are stacked for shipment to customers. Pipe sizes range from six to 144 inches.

Sales of the Group in 1982 successfully resisted the sharp downward trend of construction activity, and were at the same level as that achieved in 1981. This was due primarily to aggressive marketing programmes and to comparatively strong construction activity in Metropolitan Toronto and in Ottawa. The Group produces and sells ready-mixed concrete, concrete block, concrete brick and aggregates.

The most generally used construction material is ready-mixed concrete, and the Group produces this product at eleven facilities in Ottawa, Oshawa, Metropolitan Toronto, Hamilton, Niagara Falls and Windsor. It operates a fleet of 140 trucks throughout southern Ontario, servicing heavy construction projects, house building and road, sewer and watermain construction.

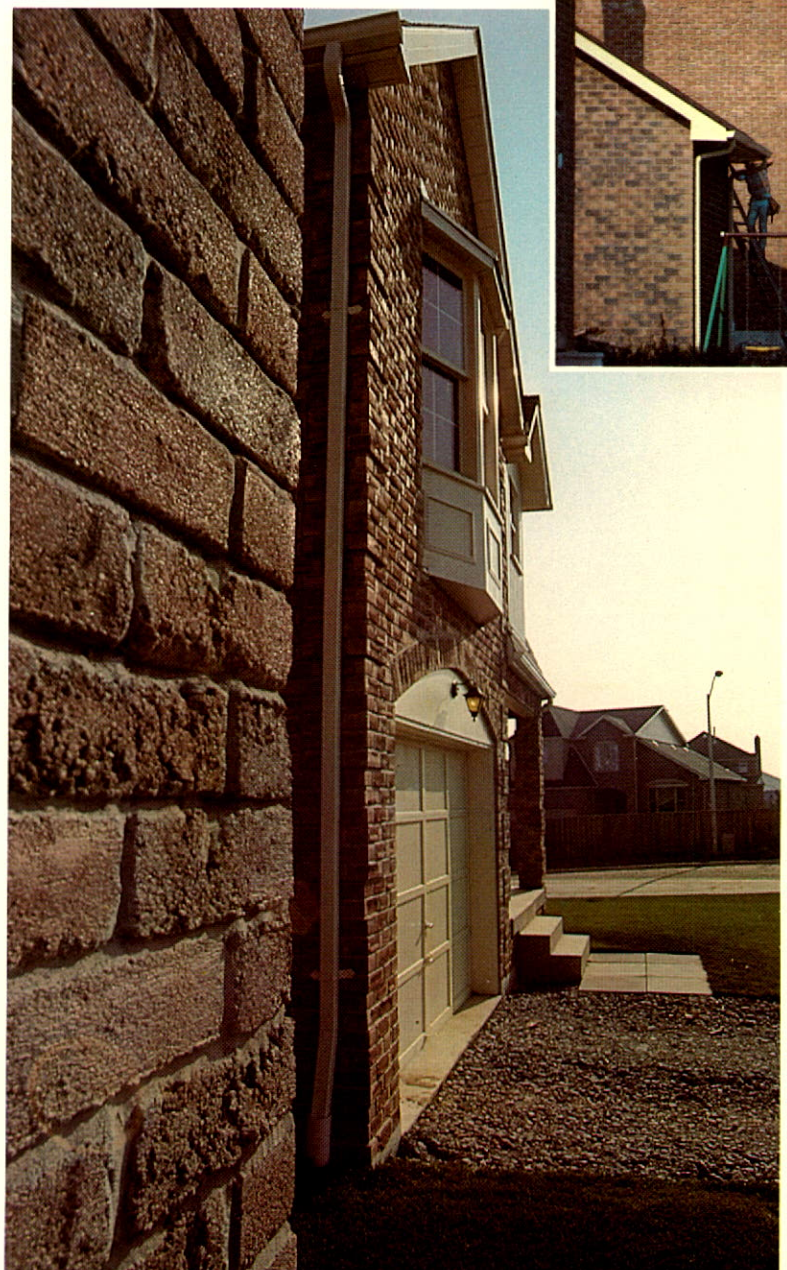
During the year the ready-mixed concrete business benefitted from substantial office construction activity, the repair and maintenance of streets and building projects in Metropolitan Toronto. The Ottawa market also showed stability, but other market areas in Ontario were sluggish.

Concrete brick sales were very strong in the year. The "Provincial" product line introduced in 1981, complementing the Group's established "Colonial" brick, enjoyed greater acceptance and accounted for an increasing share of brick sales volume.

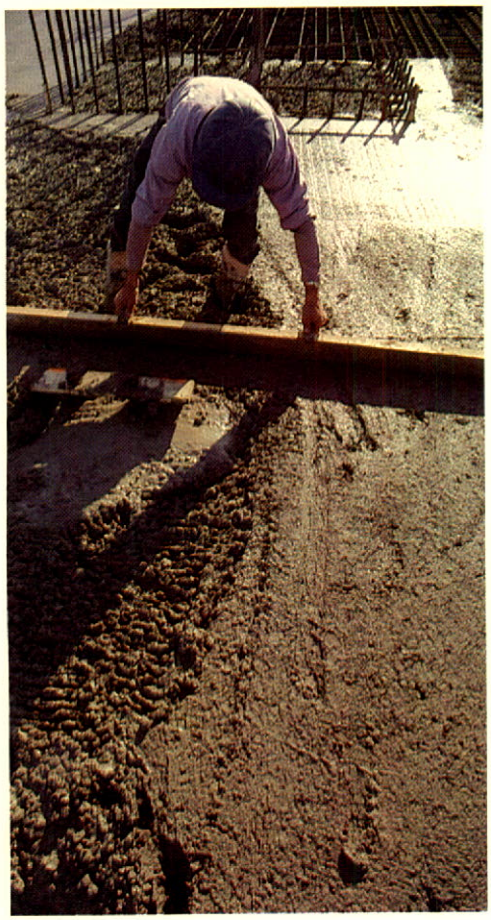
The Group's concrete brick products, emphasizing high quality and economy on the job, have penetrated all housing price ranges from modest to high, and are used as well in industrial and commercial applications.

The Group encountered poor economic conditions and low construction activity in Hamilton, Niagara Falls and Windsor. These conditions paralleled the general, and radical, downturn of construction in Canada. The dollar value of construction contract awards in the country, which rose 19 per cent from 1980 to 1981, plunged an estimated 32 per cent from 1981 to 1982. Awards for building and engineering construction showed similar patterns.

The outlook for home building began to show some positive signs in the final quarter of 1982. Various federal and provincial programmes are in place to encourage home buyers while mortgage interest costs have declined. As a result, housing starts in Ontario in 1983 are estimated at 43,300 compared to 36,000 in 1982.

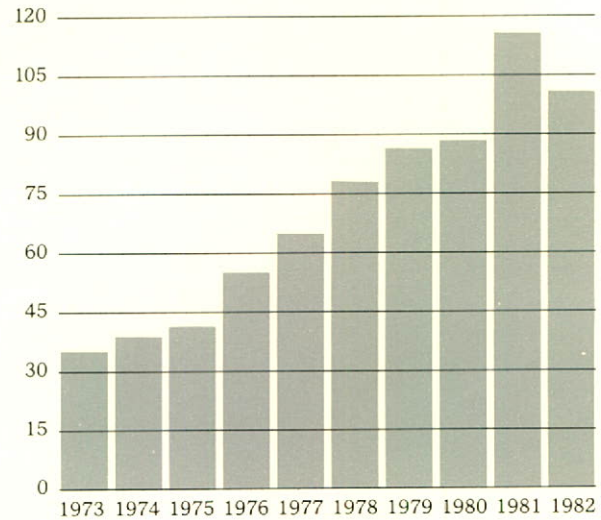


Concrete bricks provide a functional and decorative touch to the exterior of modern day homes.

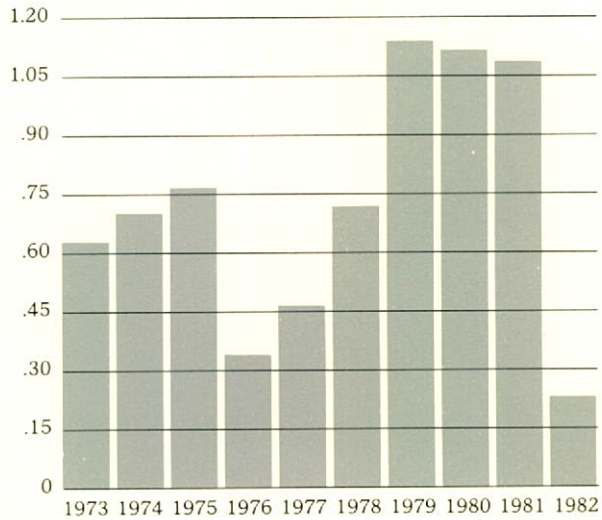


Final touches are completed to a freshly poured concrete floor.

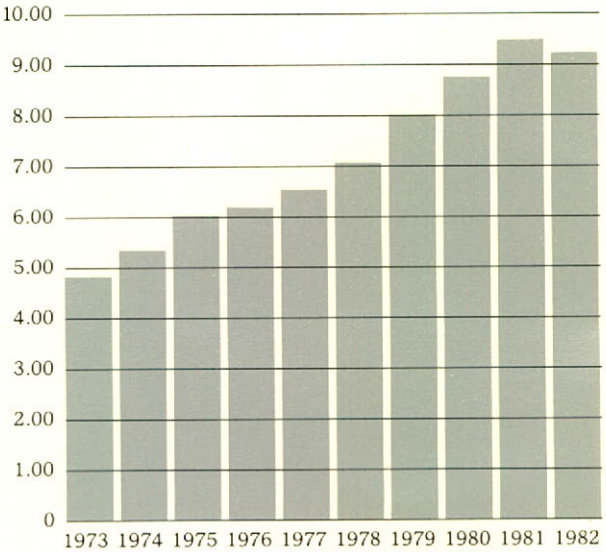
SALES
in millions
of dollars



NET EARNINGS PER SHARE
(before extra-ordinary items)
in dollars
per share



SHAREHOLDERS' EQUITY PER SHARE
(after provision
for income taxes)
in dollars
per share



CONSOLIDATED FINANCIAL STATEMENTS
NOTES AND SUMMARIES

for the year ended December 31, 1982

AUDITORS' REPORT

To the Shareholders of Lake Ontario Cement Limited

We have examined the consolidated balance sheet of Lake Ontario Cement Limited as at December 31, 1982 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 7, 1983

Coopers & Lybrand,
Chartered Accountants

CONSOLIDATED BALANCE SHEET *as at December 31*

Assets	1982	1981
Current assets		
Accounts receivable	**$ 17,942,584**	$ 22,246,423
Inventories (note 3)	**23,794,748**	25,389,418
Prepaid expenses	**1,432,460**	536,002
	43,169,792	48,171,843
Fixed assets (note 4)	**113,688,067**	106,827,223
Less: Accumulated depreciation and depletion	**52,146,295**	47,839,974
	61,541,772	58,987,249
	$104,711,564	$107,159,092

(The accompanying notes are an integral part of these financial statements)

Liabilities	1982	1981
Current liabilities		
Bank indebtedness	$ **5,376,007**	$ 14,906,085
Accounts payable and accrued liabilities	**9,088,900**	11,481,305
Income taxes payable	**—**	259,958
Long-term debt due within one year (note 5)	**3,779,065**	5,096,818
	18,243,972	31,744,166
Long-term debt (note 5)	**30,519,892**	18,947,464
Deferred income taxes (note 6)	**12,518,549**	11,695,151
	61,282,413	62,386,781
Shareholders' equity		
Share capital (note 7)	**4,306,461**	4,306,461
Contributed surplus	**4,896,161**	4,896,161
	9,202,622	9,202,622
Retained earnings (note 6)	**34,226,529**	35,569,689
	43,429,151	44,772,311
	$104,711,564	$107,159,092

Signed on behalf of the Board of Directors

J. D. Fowler, *Director*

C. D. Parmelee, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31

	1982	1981
Sales	**$102,509,487**	$114,925,185
Cost of sales	**82,069,127**	89,926,058
Gross profit	**20,440,360**	24,999,127
Expenses		
Selling, general and administrative	**12,706,646**	10,999,585
Loss on translation of foreign currency	**169,312**	404,820
Interest on long-term debt	**3,999,660**	2,772,109
Other interest expense	**1,949,672**	2,756,813
	18,825,290	16,933,327
Operating profit	**1,615,070**	8,065,800
Provision for income taxes	**805,000**	3,329,000
Net earnings for the year	**$ 810,070**	$ 4,736,800
Net earnings per common share	**$0.19**	$1.10

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31

	1982	1981
Retained earnings — beginning of year	**$ 35,569,689**	$ 32,986,119
Net earnings for the year	**810,070**	4,736,800
	36,379,759	37,722,919
Dividends	**2,153,230**	2,153,230
Retained earnings — end of year	**$ 34,226,529**	$ 35,569,689

(The accompanying notes are an integral part of these financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31

	1982	1981
Source of working capital		
Net earnings for the year	$ **810,070**	$ 4,736,800
Depreciation, depletion and amortization	**4,795,038**	4,496,949
Deferred income taxes	**823,398**	621,416
Funds provided from current operations	**6,428,506**	9,855,165
Capital lease obligations assumed	**227,785**	220,605
Long-term debt issued	**15,000,000**	—
	21,656,291	10,075,770
Application of working capital		
Fixed assets purchased	**4,849,561**	3,962,182
Long-term debt repaid	**3,655,357**	2,624,118
Businesses acquired	**2,500,000**	3,575,610
Dividends paid	**2,153,230**	2,153,230
	13,158,148	12,315,140
Increase (decrease) in working capital	**8,498,143**	(2,239,370)
Working capital — beginning of year	**16,427,677**	18,667,047
Working capital — end of year	**$24,925,820**	$16,427,677

(The accompanying notes are an integral part of these financial statements)

1. Summary of accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Lake Ontario Cement Limited and all subsidiary companies.

The operations and earnings of businesses acquired are consolidated with those of the Corporation from the dates of acquisition, using the purchase method.

(b) Foreign currency translation

Current assets and liabilities are translated into Canadian dollars at year-end exchange rates. All other assets and liabilities are translated at rates prevailing when the assets were acquired or the liabilities incurred. Sales and expenses are translated at average rates prevailing during the year, except that depreciation, depletion and amortization are translated at historical rates. The gains or losses resulting from these translations are reflected in the statement of earnings.

(c) Inventories

(i) Finished and semi-processed products are stated at the lower of average cost and net realizable value. Cost includes attributable direct costs and overheads other than depreciation.

(ii) Raw materials, fuel supplies and maintenance and repair parts are stated at the lower of cost (generally average cost) and replacement cost.

(d) Depreciation

Assets are depreciated over their estimated useful lives, using the straight-line method, with the rate adjusted for certain categories in accordance with established criteria to reflect variations from normal utilization.

The rates of depreciation used are:

Owned:

Land improvements	5% to 10%
Buildings and structures	2-1/2% to 10%
Machinery and equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%

Leased:

Equipment	16-2/3%
Vehicles	10% to 25%

Depletion of mineral deposits is recorded on a unit of production basis using estimated reserves.

2. Acquisition of businesses

Effective November 29, 1982, the Corporation purchased certain assets of Kilmer Van Nostrand Co. Limited, which were used in its ready-mixed concrete business. The total purchase price of the assets, which consisted of plant and equipment, was $2,500,000 paid in cash.

3. Inventories

Inventories consist of:

	1982	1981
Finished and semi-processed products	**$13,062,146**	$12,560,099
Raw materials and fuel supplies	**5,353,126**	7,090,024
Maintenance and repair parts	**5,379,476**	5,739,295
	$23,794,748	$25,389,418

4. Fixed assets

(a) Fixed assets consist of:

	1982			1981
	Cost	Accumulated depreciation and depletion	Net	Net
Owned:				
Land and land improvements	**$ 7,532,668**	**$ 871,906**	**$ 6,660,762**	$ 6,787,480
Mineral properties	**2,852,802**	**825,282**	**2,027,520**	2,033,281
Buildings and structures	**21,595,403**	**8,138,743**	**13,456,660**	13,866,779
Machinery and equipment	**66,008,640**	**33,571,503**	**32,437,137**	31,131,227
Vehicles and mobile equipment	**12,843,921**	**8,218,624**	**4,625,297**	4,303,996
Cement carrier — vessel conversion in process (Note 8)	**1,591,436**	**—**	**1,591,436**	—
Leased:				
Equipment	**252,422**	**157,763**	**94,659**	136,729
Vehicles	**1,010,775**	**362,474**	**648,301**	727,757
	$113,688,067	**$52,146,295**	**$61,541,772**	$58,987,249

(b) Included in the cost of fixed assets at December 31, 1982 are fully depreciated assets with an original cost of $15,404,817.

5. Long-term debt

Long-term debt consists of:

	1982			1981
	Due within one year	**Long-term portion**	**Total**	Total
9.75% debenture due 1983-1994	**$ 860,000**	**$ 9,480,000**	**$ 10,340,000**	$ 11,200,000
Term bank loan due 1992 at optional rates of interest, based on Canadian prime or banker's acceptances, U.S. prime or Eurodollar rates. Effective rate at December 31, 1982 – 12.2%	**–**	**15,000,000**	**15,000,000**	–
Demand bank loan at Canadian prime interest rate, with repayments scheduled monthly 1983-1987	**744,000**	**2,625,000**	**3,369,000**	4,175,000
Promissory note due 1983, with 9% interest rate (U.S. $950,000)	**1,173,250**	**–**	**1,173,250**	2,128,000
Term bank loan due 1986, with the interest rate based on U.S. prime or Eurodollar rates. Effective rate at December 31, 1982 – 11.2% (U.S. $2,000,000)	**–**	**2,100,000**	**2,100,000**	2,100,000
Miscellaneous mortgages and notes due 1983-1990, with interest rates varying between 11% and 14%	**720,308**	**943,224**	**1,663,532**	3,728,480
Capital portion of lease obligations due 1983-1986, with the interest rate averaging 15.5%	**281,507**	**371,668**	**653,175**	712,802
	$3,779,065	**$30,519,892**	**$34,298,957**	$24,044,282

The aggregate repayments of principal required to meet debt obligations, other than obligations under capital leases, in each of the next five years are as follows:

1983	$ 3,497,558
1984	1,765,885
1985	2,031,079
1986	3,782,067
1987	1,304,377

The debenture is payable in annual instalments of $860,000 and is secured by a first mortgage on the manufacturing facility in Picton, by a floating charge on substantially all other property, plant and equipment of the Corporation and by a pledge of the shares of U.S. subsidiary companies.

The $15,000,000 term bank loan is unsecured, but the Corporation has undertaken to provide the lender with security ranking pari passu to any future security that may be given to any other lender. The principal amount is repayable in full at the end of the term or alternatively, at the option of the Corporation, in a series of scheduled amounts over the final six years of the loan.

Both the debenture and such term bank loan contain a number of covenant conditions imposing maintenance of minimum levels of equity and working capital and limiting the amount of debt the Corporation may assume. In addition, the loans allow payment of dividends up to 50% of post-1973 consolidated net income, provided that consolidated net tangible assets are not reduced below a specified level.

The 9% promissory note is secured by a mortgage on land, buildings and machinery located in Essexville, Michigan.

The long-term portion of the U.S. debt has been translated to Canadian dollars at the rate of exchange at the date the debt was incurred. If the year-end rate had been used, the long-term portion would have been increased by $370,000.

6. Deferred income taxes

The total deferred income taxes to December 31, 1982 amount to $16,640,549, 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 Corporation changed its method and, from that date, has recorded subsequent deferred income taxes in the accounts.

7. Share capital

(a) The Corporation is authorized to issue an unlimited number of common and preferred shares without nominal or par value. At December 31, 1982, 4,306,461 fully paid common shares only were issued and outstanding.

(b) Share purchase plan

Under the terms of the share purchase plan for key executives, authorized and unissued common shares of the Corporation up to, but not exceeding, a further 124,000 shares in the aggregate may be allotted and issued to key executives. Shares may be allotted and issued at a price, payable in instalments, representing a discount of not more than 15% from the market price at the time of allotment. As at December 31, 1982, there were no outstanding allotments under this plan which had not been fully paid.

8. Commitments and contingencies

The Corporation has entered into contracts with CSL Group Inc. for the purchase and conversion of a vessel to be utilized as a Great Lakes bulk cement carrier. Conversion should be completed by July, 1983 and the total cost is estimated at $8,000,000, of which $1,591,436 has been expended to date and recorded in fixed assets. Negotiations are proceeding to finance a substantial part of the total cost by means of a term loan.

The Corporation has entered into a number of lease agreements, mainly for transportation vessels and property. The future minimum lease payments under capital and operating leases that have terms in excess of one year as at December 31, 1982 are as follows:

	Capital leases	Operating leases
1983	$359,000	$ 960,000
1984	295,000	822,000
1985	130,000	576,000
1986	9,000	420,000
1987	—	400,000
Subsequent	—	1,482,000
Total minimum lease payments	793,000	$4,660,000
Less: Amount representing interest	140,000	
Obligations under capital leases	$653,000	

The Corporation has guaranteed the bank indebtedness of a non-associated company to a maximum of $1,000,000.

9. Pension plans

The Corporation has a number of employee retirement pension plans covering substantially all employees. Pension costs for current service are charged to earnings in the year incurred. Upon the recommendation of independent consulting actuaries, a change was made during the year in the actuarial method adopted for the United States plans.
The effect was to reduce the unfunded liability for past service by approximately $1,750,000.
The remaining liability for past service amounts to approximately $1,000,000 and is being charged to operations over varying periods up to 13 years.
Certain plans are presently in a surplus position and, as a result, the pension expense for the year ended December 31, 1982 was reduced by approximately $400,000.

10. Segmented information

The Corporation operates in what is considered to be a single industry, namely cement and concrete products. Its products are sold in a limited regional geographic area adjacent to the Great Lakes.

The Corporation is required to disclose certain financial information relative to its foreign and domestic operations and this is shown below.

Canadian segmented information relates to manufacturing and distribution operations for cement and concrete products. United States information relates only to the secondary grinding and distribution of cement.

The profitability of the two geographic segments is affected by the different markets served and the transfer prices established to handle the significant movement of product between the Corporation's Canadian and United States facilities. Management cautions that these figures should not be regarded as an absolute indication of the comparative profitability of the geographic areas in which the Corporation operates.

Geographic analysis for the year ended December 31

	1982	1981
Sale of products to outside customers:		
Canada	**$ 70,985,028**	$ 73,065,622
United States	**31,524,459**	41,859,563
Inter-area sales by:		
Canada	**27,703,904**	23,710,450
United States	**485,887**	1,057,906
	130,699,278	139,693,541
Elimination of inter-area sales	**28,189,791**	24,768,356
Total sales per consolidated statement of earnings	**$102,509,487**	$114,925,185
Contributions to earnings from:		
Canadian operations	**$ 2,966,127**	$ 7,710,120
United States operations	**(1,351,057)**	355,680
	1,615,070	8,065,800
Less: Provision for income taxes	**805,000**	3,329,000
Net earnings	**$ 810,070**	$ 4,736,800
Identifiable assets analyzed by geographic area:		
Canada	**$ 87,811,045**	$ 89,995,243
United States	**15,944,342**	16,332,552
Corporate assets	**956,177**	831,297
Total assets per consolidated balance sheet	**$104,711,564**	$107,159,092

TEN YEAR FINANCIAL SUMMARY

Dollars in thousands, except amounts per share	**1982**	1981	1980
Operating results			
Sales	**$102,509**	$114,925	$89,346
Cost of sales	**82,069**	89,926	69,992
Gross profit	**20,440**	24,999	19,354
Selling, general and administrative expenses	**12,706**	10,999	8,148
Loss (gain) on foreign exchange	**169**	405	(117)
Interest on long-term debt	**4,000**	2,772	2,148
Other interest	**1,950**	2,757	843
	18,825	16,933	11,022
Operating profit	**1,615**	8,066	8,332
Provision for income taxes	**805**	3,329	3,475
Net earnings before the following:	**810**	4,737	4,857
Minority interest in net earnings of subsidiary company			
Investment income on equity basis			
(Loss) gain on disposal of fixed assets			
Extraordinary items			575
Net earnings for the year	**$ 810**	$ 4,737	$ 5,432
Balance Sheet			
Working capital	**$ 24,926**	$ 16,428	$18,667
Fixed assets—net	**61,542**	58,987	49,263
Long-term debt	**30,520**	18,947	15,274
Deferred income taxes (2)	**16,640**	15,817	14,589
Shareholders' equity (2)	**$ 39,307**	$ 40,650	$38,067
Other information			
Funds provided from current operations (1)	**$ 6,428**	$ 9,855	$ 9,071
Capital expenditures	**5,159**	4,125	4,469
Depreciation and depletion	**4,795**	4,497	4,092
Common share price range			
High	**7.00**	8.50	7.50
Low	**$ 4.55**	$ 5.75	$ 5.00
Number of common shareholders	**2,645**	2,769	3,052
Return on average shareholders' equity (1 & 2)	**2.0%**	12.0%	13.3%
Per common share			
Earnings (1)	**$ 0.19**	$ 1.10	$ 1.13
Funds provided from current operations (1)	**1.49**	2.29	2.11
Common dividends	**0.50**	0.50	0.45
Shareholders' equity (2)	**$ 9.13**	$ 9.44	$ 8.84

Notes: (1) Before extraordinary items.

(2) After full provision for deferred income taxes—see notes to the financial statements.

1979	1978	1977	1976	1975	1974	1973
$88,317	$78,364	$64,641	$54,845	$41,833	$39,398	$34,883
69,340	64,186	53,167	44,810	31,469	30,155	26,483
18,977	14,178	11,474	10,035	10,364	9,243	8,400
7,451	6,852	5,756	4,869	3,688	3,152	2,758
88	(382)	(262)	(116)			
2,299	2,277	2,023	1,615	1,553	1,361	1,089
326	362	637	1,001	(8)	(272)	35
10,164	9,109	8,154	7,369	5,233	4,241	3,882
8,813	5,069	3,320	2,666	5,131	5,002	4,518
3,854	1,902	1,262	1,126	2,045	2,230	1,818
4,959	3,167	2,058	1,540	3,086	2,772	2,700
(16)	(17)	(50)	(55)			
				128	226	213
				111		(188)
950					482	
$ 5,893	$ 3,150	$ 2,008	$ 1,485	$ 3,325	$ 3,480	$ 2,725
$18,503	$16,836	$14,821	$ 6,909	$ 2,393	$10,340	$ 3,966
49,265	48,546	49,126	48,817	48,207	35,604	31,877
17,784	20,245	21,338	15,239	15,698	15,822	10,363
14,467	14,168	14,168	13,146	11,842	9,502	7,702
$34,573	$30,166	$27,877	$26,730	$26,106	$23,426	$20,462
$ 9,326	$ 7,116	$ 7,258	$ 6,386	$ 7,770	$ 7,467	$ 6,230
5,128	3,132	1,848	2,325	15,434	6,724	7,103
4,056	3,937	4,024	3,688	2,769	2,669	2,293
6.25	5.87	3.60	4.20	3.85	4.40	4.90
$ 4.85	$ 3.25	$ 3.05	$ 3.05	$ 2.80	$ 2.30	$ 3.15
3,237	3,598	3,915	4,094	4,187	4,264	4,400
15.3%	10.9%	7.4%	5.6%	13.4%	15.9%	14.1%
$ 1.15	$ 0.73	$ 0.47	$ 0.35	$ 0.77	$ 0.70	$ 0.63
2.17	1.65	1.69	1.48	1.81	1.74	1.45
0.35	0.20	0.20	0.20	0.15	0.12	0.10
$ 8.03	$ 7.01	$ 6.48	$ 6.21	$ 6.07	$ 5.45	$ 4.76

DIRECTORS

Rudolph P. Bratty, Q.C.
Toronto, Ontario
Partner, Gambin, Bratty

Edward P. Curtis, Jr.
Rochester, New York
President, Genesee Public Affairs Inc.

John D. Fowler
Toronto, Ontario
President and Chief Executive Officer,
Lake Ontario Cement Limited

G. Ernest Jackson
Toronto, Ontario
Senior Vice-President
Reed Stenhouse Limited

Donald J. Matthews
London, Ontario
Chairman, Matthews Group Limited

E. Bruce McConkey
Toronto, Ontario
Vice-Chairman
Denison Mines Limited

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

Charles D. Parmelee
Toronto, Ontario
Executive Vice-President
Denison Mines Limited

Franklin Rittmueller
Frankenmuth, Michigan
Chairman and Chief Executive Officer, Frankenmuth Bank and Trust and Chairman and President, Peoples Banking Corporation

Stephen B. Roman, K.C.S.G., LL.D.
Toronto, Ontario
Chairman and Chief Executive Officer,
Denison Mines Limited

Denis R.T. White
Toronto, Ontario
Vice-President, Administration and Finance and Secretary,
Lake Ontario Cement Limited

OFFICERS

Stephen B. Roman, K.C.S.G., LL.D.
Chairman of the Board

Charles D. Parmelee
Vice-Chairman of the Board

John D. Fowler, President and Chief Executive Officer

Denis R.T. White, Vice-President, Administration and Finance and Secretary

Joseph S. Pal, President,
The Cement Group

Ken Bruce, President,
The Pipe Group

John A. Clarke, Vice-President
Cement Manufacturing

Robert W. Denham, Corporate Controller

J. Scott Cowan, Assistant Secretary

Charles A. Gibbs, Assistant Treasurer

HEAD OFFICE

2 Carlton Street, Toronto, Ontario
M5B 1J6

AUDITORS

Coopers & Lybrand, Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada,
Toronto, Ontario

STOCK LISTING

Toronto Stock Exchange
Stock Symbol "LOP"

ANNUAL MEETING

The Annual Meeting of the shareholders of Lake Ontario Cement Limited will be held in the Library, Main Mezzanine Floor, Royal York Hotel, 100 Front Street West, Toronto, Ontario on Tuesday, February 15, 1983 at 11:00 a.m.

LAKE ONTARIO CEMENT LIMITED OPERATING GROUPS

THE CEMENT GROUP

2 Carlton Street,
Toronto, Ontario M5B 1J6
(416) 977-0611

J.S. Pal, President
J.A. Clarke, Vice-President
Cement Manufacturing

Lake Ontario Cement (Canada)
R.K. Post, General Sales Manager, Canada
L.P. Finnegan, Plant Manager, Picton

Cement Manufacturing Plant
Highway 49, Picton, Ontario
K0K 2T0
(613) 476-3233

Sales Office:
2 Carlton Street, Toronto, Ontario

Aetna Cement Corporation
Main Street,
Essexville, Michigan 48732
(517) 894-4581

K.L. Neering, Vice-President
Sales and Marketing
L.D. Van Sumeren, Controller
A.M. Walraven, Plant Manager

Rochester Portland Cement Corp.
361 Boxart Street, Rochester,
New York 14612
(716) 663-7272

R.L. Forde, President
H.W. Ingmire, Vice-President, Sales

THE BUILDING PRODUCTS GROUP

2 Carlton Street,
Toronto, Ontario M5B 1J6
(416) 977-0611

J.D. Fowler, Acting President
S.W. Knott, Vice-President
Operations Analysis

Premier Concrete — Toronto Region
1625 Shawson Drive,
Mississauga, Ontario L4W 1T7
(416) 678-9540
A.S. Frayne, General Manager

Premier Concrete — Ontario Region
2 Carlton Street,
Toronto, Ontario M5B 1J6
(416) 977-0611
C.C. Husband, General Manager

Primeau Argo
170 Brockport Drive,
Rexdale, Ontario M9W 5C8
(416) 675-3444
G.R. Wilson, General Manager

KVN Concrete
949 Wilson Avenue,
Downsview, Ontario M3K 1G2
(416) 633-2180
V. F. Butler, General Manager

THE PIPE GROUP

2 Carlton Street
Toronto, Ontario M5B 1J6
(416) 977-0611

K. Bruce, President

Bestpipe
245 Strasburg Road
Kitchener, Ontario N2G 3Y9
(519) 745-8406
R.S. Wood, Vice-President and General Manager, Ontario

Highway 31,
Metcalfe, Ontario KOA 2P0
(613) 821-1291
R. Sachs, Area Manager, Ottawa

Vibrapipe Ltée
648 Boulevard Labelle,
Blainville, Quebec J7C 2J2
(514) 430-7650
H. Daigle, General Manager, Quebec

Duracon
1850 Britannia Road East,
Mississauga, Ontario L4W 1J3
(416) 677-1600
P.A. Greer, Vice-President and General Manager

Utility Vault Company of Canada Limited
Puslinch Sideroad 25,
Guelph, Ontario N1H 6H9
(519) 836-8250
R.S. Wood, Vice-President and General Manager

LAKE ONTARIO CEMENT LIMITED
2 Carlton Street, Toronto,
Ontario M5B 1J6 (416) 977-0611

The Corporation's Logo

Two symbols from earliest times are combined to form the Lake Ontario Cement Limited logo. The 𓉐 was once the universal symbol for stone, and 𓈖 the sign for water.

Forms of cement were in use even before the Egyptian pyramid builders employed a gypsum plaster as mortar. The early Greeks used slaked lime. The Romans mixed finely ground volcanic rock with lime and water to build the Pantheon and Colosseum. Today, modern cement is made from special, finely ground 𓉐 which is burned with other mineral substances. This cement is mixed with 𓈖, sand and more 𓉐 to make concrete which will endure for ages.

Printed in Canada