Lake Ontario Cement Limited

Annual Report 1981

The Corporation's Business

Lake Ontario Cement Limited manufactures and supplies cement and a broad range of concrete products through three operating groups serving the eastern Great Lakes region of North America.

The principal business of The Cement Group is the manufacture and sale of cement in the province of Ontario and in the states of Michigan and New York. Through The Premier Group the Corporation manufactures and distributes ready-mixed concrete, concrete block and concrete brick in Ontario. Additionally, The Pipe Group, established in 1981 with the acquisition of three companies, manufactures and sells a complete range of concrete pipe and related products in Ontario and Quebec.

Lake Ontario Cement Limited was founded in 1956 and is the only Canadian controlled public cement corporation. The Corporation's common stock is listed on the Toronto Stock Exchange and has been publicly traded since 1961. Some 54 per cent of the Corporation's stock is owned by Denison Mines Limited, a major Canadian energy company.

The Corporation's Logo

Two symbols from earliest times are combined to form the Lake Ontario Cement Limited logo. The Ŧ was once the universal symbol for stone, and = 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 Ŧ which is burned with other mineral substances. This cement is mixed with =, sand and more Ŧ to make concrete which will endure for ages.

The Cover

The cover photographs were selected to represent the three major operating groups of the Corporation. Top photo: The Premier Group and the pouring of ready-mixed concrete; centre: The Cement Group and the interior of a kiln showing cement clinker being made; bottom: The Pipe Group and the production of concrete sewer pipe.

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 9, 1982 at 11:00 a.m.

Contents

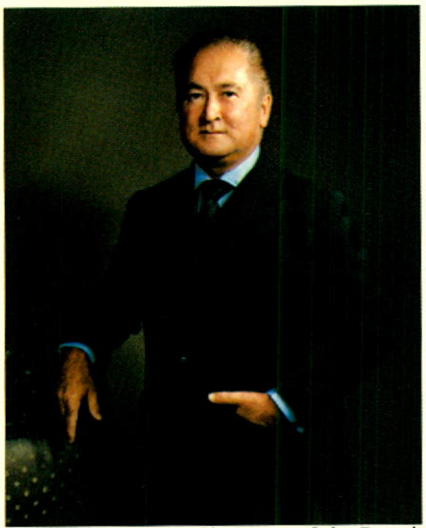
Financial highlights

	for the year ended December 31 1981	1980	Increase (Decrease)
Financial			
Sales	**$114,925,185**	$89,346,673	29%
Net earnings before extraordinary items	**4,736,800**	4,856,668	(3%)
Extraordinary items	**–**	575,325	–
Net earnings for the year	**4,736,800**	5,431,993	(13%)
Funds provided from current operations	**9,855,165**	9,070,690	9%
Capital expenditures	**4,124,613**	4,469,165	(8%)
Working capital	**16,427,677**	18,667,047	(12%)
Long-term debt (non-current portion)	**18,947,464**	15,273,697	24%
Shareholders' equity	**44,772,311**	42,188,741	6%
Per common share			
Net earnings			
Before extraordinary items	**$ 1.10**	$ 1.13	
After extraordinary items	**1.10**	1.26	
Funds provided from current operations	**2.29**	2.11	
Dividends	**0.50**	0.45	
Shareholders' equity	**9.44**	8.84	
Statistical data			
Number of common shareholders	**2,769**	3,052	
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	
	1981	1980	**1981**	1980	**1981**	1980
1st quarter	**$ 10,591**	$ 9,486	**$ (2,464)**	$ (2,185)	**$ (0.57)**	$ (0.51)
2nd quarter	**34,164**	25,572	**2,809**	2,095	**0.65**	0.49
3rd quarter	**40,531**	30,546	**3,049**	2,718	**0.71**	0.63
4th quarter	**29,639**	23,743	**1,343**	2,229	**0.31**	0.52
	$114,925	$89,347	**$ 4,737**	$ 4,857	**$ 1.10**	$ 1.13
Extraordinary items	**–**	–	**–**	575	**–**	0.13
	$114,925	$89,347	**$ 4,737**	$ 5,432	**$ 1.10**	$ 1.26

Report to shareholders



Stephen B. Roman, Chairman of the Board

John D. Fowler, President

Tightening economic conditions produced mixed financial results for Lake Ontario Cement Limited in 1981. While traditional markets softened in the latter part of the year, acquisitions and related organizational changes have, we believe, positioned the Corporation to capitalize on improving conditions in 1982 and beyond.

Consolidated sales for the twelve months ended December 31, 1981 were \$114,925,185, approximately 29% greater than the sales level of \$89,346,673 for the previous year. The major increase in sales in 1981 occurred as a result of the acquisitions made during the year in the concrete pipe and related products markets.

Consolidated net earnings for the year were \$4,736,800 (\$1.10 per share) compared to earnings of \$4,856,668 (\$1.13 per share) for the year ended December 31, 1980. An extraordinary gain of \$575,325 arising from the sale of surplus land increased the net earnings in 1980 to \$5,431,993 (\$1.26 per share).

Earnings were adversely affected by a drop in cement margins, generated primarily by depressed selling prices in the Michigan market, and poor financial results in the Ontario ready-mixed concrete market. In addition, interest costs increased reflecting not only higher rates but, as well, the level of borrowings required to complete the acquisitions made by the Corporation during the year. These negative factors were largely offset by the earnings contribution of the acquisitions and continuing attention to productivity improvements throughout the Corporation.

Shipments of cement by the Corporation declined only marginally from the levels achieved in 1980, but there were significant variations by market area and profit margins were adversely affected. Poor economic conditions in the state of Michigan depressed both shipments and cement selling prices. The drop in construction in Ontario, particularly housing construction, depressed cement consumption and resulted in decreased shipments by the Corporation in that province. The western New York state market showed an increase in cement consumption reflecting a general trend towards recovery in this area. Shipments of cement in this market largely offset the declines in Ontario and Michigan.

In the concrete products markets in Ontario, shipments by the Corporation of ready-mixed concrete declined by about 10% from the previous year's level. Markets for concrete block remained relatively stable, but demand for concrete brick continued to increase reflecting a strong marketing programme. Profit margins for the ready-mixed concrete business continue to be unsatisfactory, especially in the Metropolitan Toronto market. This particular operation was unprofitable in 1981, primarily because the selling prices for ready-mixed concrete are extremely low. Prices in the Metropolitan Toronto market are generally considered to be the lowest in North America.

Acquisitions

During the year, a number of acquisitions were completed which enabled the Corporation to increase product and geographical diversification.

On February 6, 1981 the assets of Niagara Ready-Mix Limited in Niagara Falls, Ontario, were acquired in order to expand market penetration in this area for ready-mixed concrete.

On April 30, 1981 the Corporation acquired all the outstanding shares of Bestpipe Limited, a manufacturer of concrete pipe and related products with plants at Kitchener and Metcalfe, Ontario and Blainville, Quebec. At the same time, the Corporation acquired all the outstanding shares of Duracon Precast Industries Limited, a manufacturer of manholes, catchbasins and related products, with a plant located at Mississauga, Ontario.

On November 6, 1981 the Corporation acquired the shares of Utility Vault Company of Canada Limited, a small but growing Guelph, Ontario manufacturer of precast concrete box sections.

During the year, Bestpipe and Duracon were amalgamated into Lake Ontario Cement Limited and their businesses, along with the business of Utility Vault Company of Canada Limited, form The Pipe Group, a new operating division of the Corporation.

Capital expenditures
Capital expenditures for the year totalled $4,124,613 compared to $4,469,165 in 1980. These expenditures were primarily devoted to replacement of equipment and continuing modernization of cement and concrete manufacturing and distribution facilities.

Dividends
Dividends paid in 1981 totalled $2,153,230 (50¢ per share), an increase of 5¢ per share from the 45¢ per share paid in 1980. Payments were made in April, 1981 and October, 1981 at the semi-annual rate of 25¢ per common share.

Financial condition
The Corporation's debt and working capital levels were affected largely as a result of the acquisition programme. Working capital at December 31, 1981 declined to $16,427,677 compared to $18,667,047 at the end of the previous year. The non-current portion of long-term debt increased from $15,273,697 to $18,947,464 at the end of the year and current bank debt stood at $14,906,085 compared to $4,144,246 at the end of 1980. Funds generated from operations totalled $9,855,165 in 1981 compared to $9,070,690 in 1980.

The overall financial position of the Corporation continues to be satisfactory as the non-current portion of long-term debt totals $18,947,464 and shareholders' equity $44,772,311. This debt to equity ratio is sound in today's economic environment.

Outlook
It is difficult to forecast with precision or confidence the outlook for the near-term in the Corporation's markets. The current recession, high interest rates and the recent federal budget are all negative factors in Canada for the short-term. The Canadian federal budget has been particularly damaging to business investment as it reflects increasing government intervention. While economic prospects in the United States also cause concern in the short-term, President Reagan's programs should result in an eventual resurgence in real growth and construction activity in that country.

On a positive note, the Corporation anticipates that, with lower interest rates and increasing consumer confidence, construction and housing starts will begin to strengthen in Canada in the latter half of 1982. In addition, there is a continuing high level of commercial construction in the metropolitan region of Toronto, together with a stable demand for concrete pipe and related products in the Ontario and Quebec markets.

In the United States, cement consumption is projected to be at a low point in the first half of 1982. A recovery phase should begin in the second half of the year, and current projections are for 1982 to be a somewhat static year in our U.S. markets for cement.

The Corporation has enhanced its product and geographical diversification through major acquisitions and is continuing to look for additional opportunities.

Management is optimistic that mid-1982 will see the turning point in the current recession, and that demand for its products will be strong in 1983 and 1984.

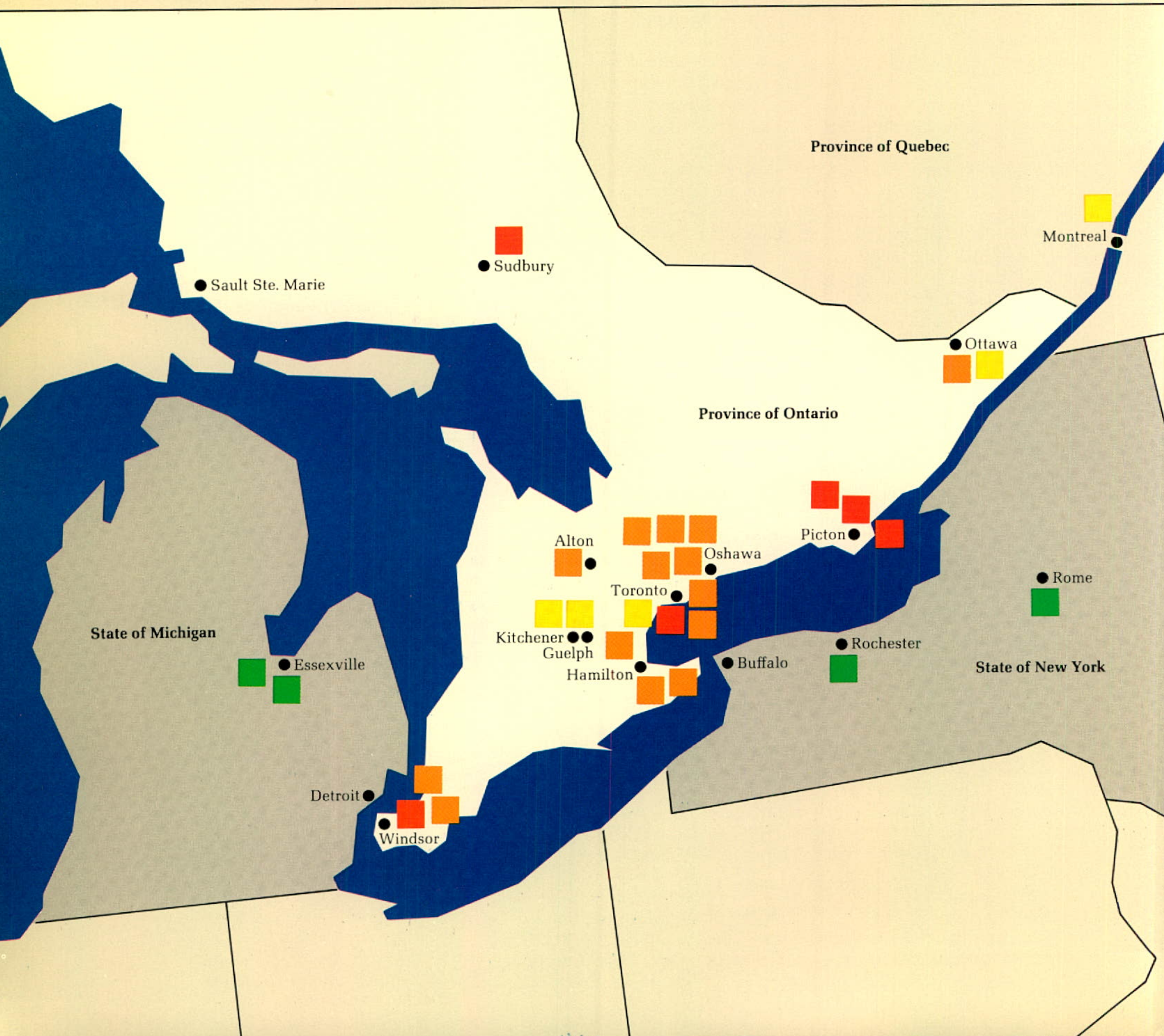
Organization and Management
Because of the acquisitions that took place during 1981, certain senior managerial appointments were made. In August, 1981 Mr. Ken Bruce was appointed President of The Pipe Group which now consists of the newly acquired Bestpipe, Duracon and Utility Vault businesses. Mr. Bruce has been with the Corporation since 1972 and, prior to his appointment, was President of The Premier Group. At the same time, Mr. Richard H. Grimm was appointed President of The Premier Group, encompassing the ready-mixed concrete, concrete block and brick operations in Ontario. Mr. Grimm was formerly President of Primeau Argo Block Co. Limited and latterly was Executive Vice-President, Marketing for The Premier Group.

The Board of Directors wishes to express its appreciation of the dedicated efforts of its employees during the year, and it is grateful to the loyal customers who continue to support your Corporation.

On behalf of the Board of Directors.

J. D. Fowler
President
January 11, 1982

Canadian cement market area
U.S. cement market area
Premier Group operations
U.S. Cement Group operations
Canadian Cement Group operations
Pipe Group operations



Corporate structure and markets


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

Lake Ontario Cement Limited, first incorporated in 1956, represents a diverse group of operations serving the cement and concrete products markets of major centres in the eastern Great Lakes region of North America.

First established to manufacture and service the cement demands of the Ontario market, Lake Ontario Cement Limited has expanded both product range and markets serviced over the past two decades. The Corporation is committed to a strategy that involves the acquisition of strong, well-managed companies that support and strengthen the Corporation's principal business, the manufacture of cement and concrete products.

The Corporation presently operates in the provinces of Ontario and Quebec in Canada, Michigan state and western New York state in the United States. While much has been written about the current economic malaise in this region, the Corporation considers it to be of significant size and importance. It is an industrial heartland and has basic strengths of people, manufacturing facilities and strategic location. This region has a total population approximating 31.5 million, with 11 million households, annual housing starts of 113,000 and annual non-residential building permits exceeding $10 billion. The Corporation believes this region will continue to be one of long-term vitality in spite of current depressed economic conditions.

As well as being a substantial supplier of cement in Ontario, the Corporation is also active in western New York state, through its subsidiary Rochester Portland Cement Corp., and in Michigan state through Aetna Cement Corporation, another wholly-owned subsidiary. Cement is marketed under the Lake Ontario, Aetna, Rochester Portland and Mohawk Valley brand names.

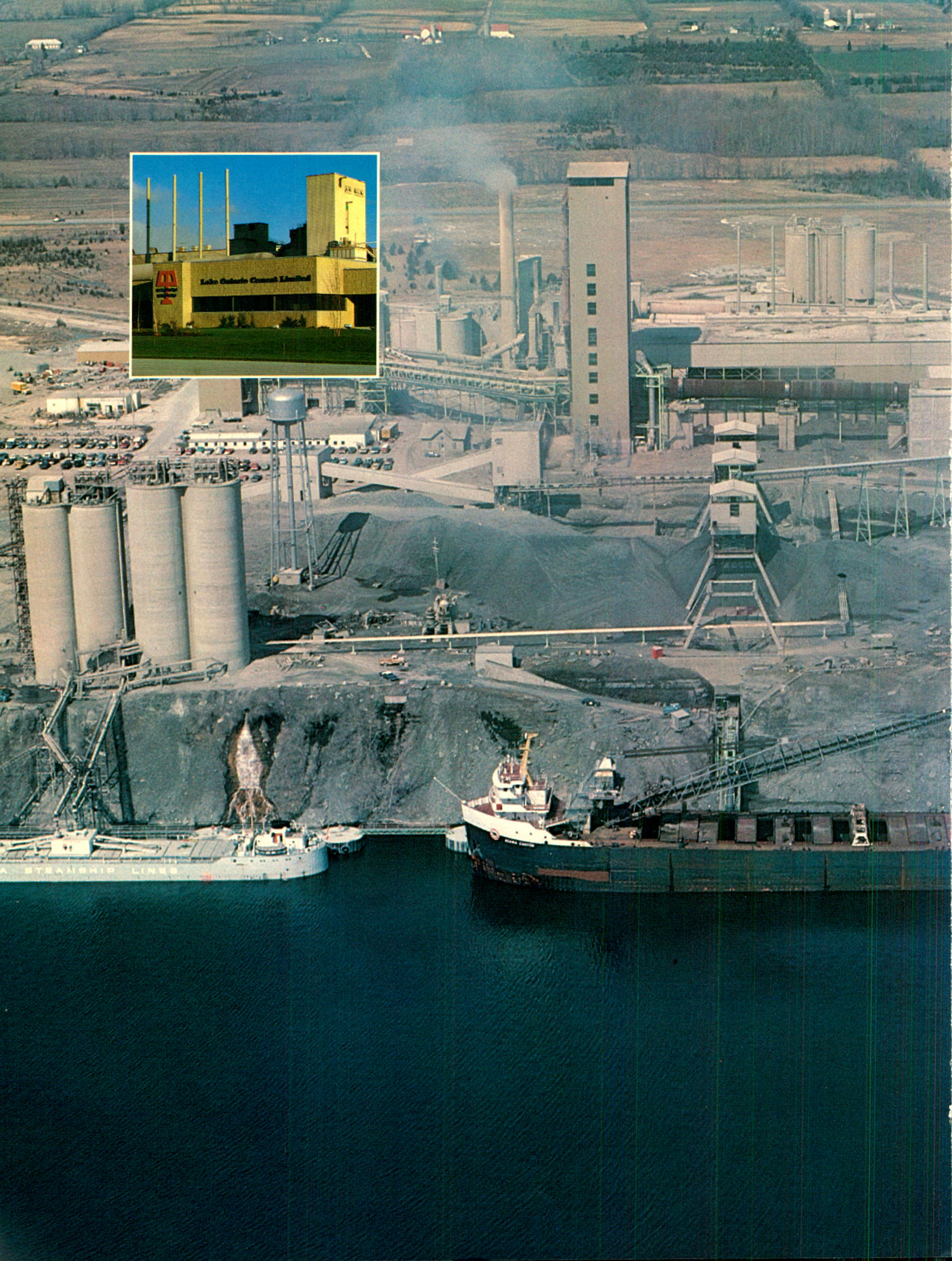
Earlier this year, with the formation of a new division of the Corporation–The Pipe Group–Lake Ontario Cement Limited continued its commitment to build for the future. Acquisition of Bestpipe Limited and Duracon Precast Industries Limited, major producers of concrete pipe and related products, and Utility Vault Company of Canada Limited, a supplier of precast concrete box culverts and vaults, broadened the Corporation's range of concrete products via diversification.

The Premier Group, based in Ontario, manufactures and markets ready-mixed concrete, concrete block and concrete brick from twelve plants located throughout the province. These products, used in heavy construction, residential construction and public works projects, are manufactured and marketed under the Premier and Primeau Argo names.

The volume of cement consumed relates directly to the activities of the construction industry making the cement industry's performance cyclical in nature. 1981 proved to be a somewhat softer year than earlier years in terms of cement consumption as housing starts and construction activity declined. Forecasts for 1982 do not reflect any major recovery in cement consumption from the low level of 1981.

The prospects are brighter, however, for cement and construction for the balance of the 80's. Cement consumption in the U.S., for example, is projected by the Portland Cement Association to rise from a low of 71 million tons in 1981 to a high of 88 million tons in 1986. In Canada, consumption is expected to grow more slowly from 9.9 million tons in 1981 to 10.9 million tons over the same 5 year period.

Consumption of concrete products moves in step with cement consumption and is, therefore, expected to grow steadily.


Lake Ontario Cement Limited
STEAMSHIP LINES

The Cement Group-Canada

The Cement Group manufactures and markets cement products used in the various areas of the construction industry in Ontario and the states of Michigan and New York, and accounted for 58% of the Corporation's sales in 1981.

Cement is manufactured to serve the Ontario market at a modern 1.3 million metric ton plant in Picton, near the eastern end of Lake Ontario. Product is shipped from the plant either directly to customers or through distribution depots located at Toronto, Picton, Windsor and Coniston (Sudbury) in Ontario. The plant has 4 kilns and is one of the largest cement manufacturing facilities in North America. The majority of its production is handled by a large preheater kiln which utilizes modern fuel and process technology and can be fueled by either gas or coal.

Historically, approximately 35% of all cement shipments in Canada are consumed by residential construction and, therefore, housing starts are significant long term indicators for the cement industry. The balance of cement consumption is accounted for by heavy construction which accounts for approximately 30%, industrial and commercial which consumes about 17%, and public building and other construction which utilizes approximately 18%.

The Ontario construction industry was relatively strong in the first half of 1981. The second half of the year, however, suffered from the continuing pressure of high interest rates and a severe restraint was imposed on construction activity.

Cement consumption in Ontario, for 1981, is projected to be 2.8 million tons–almost the same level achieved in 1980 of 2.9 million tons. This level of consumption compares with a previous level of 3.8 million tons in the mid-1970's and reflects the current decline in construction activity and business in the province.

Current economic projections for 1982 do not show substantial growth. Cement consumption in Ontario is expected to remain at current levels with growth possibilities coming late in the year as the housing market recovers. Significant improvement in the construction industry will not occur until the economy strengthens and that strength depends upon lower interest rates.

While Ontario currently is suffering through a major economic recession, prospects for cement consumption are strong for 1983 and subsequent years. The broad industrial and commercial base of the province will generate significant and continuing growth.

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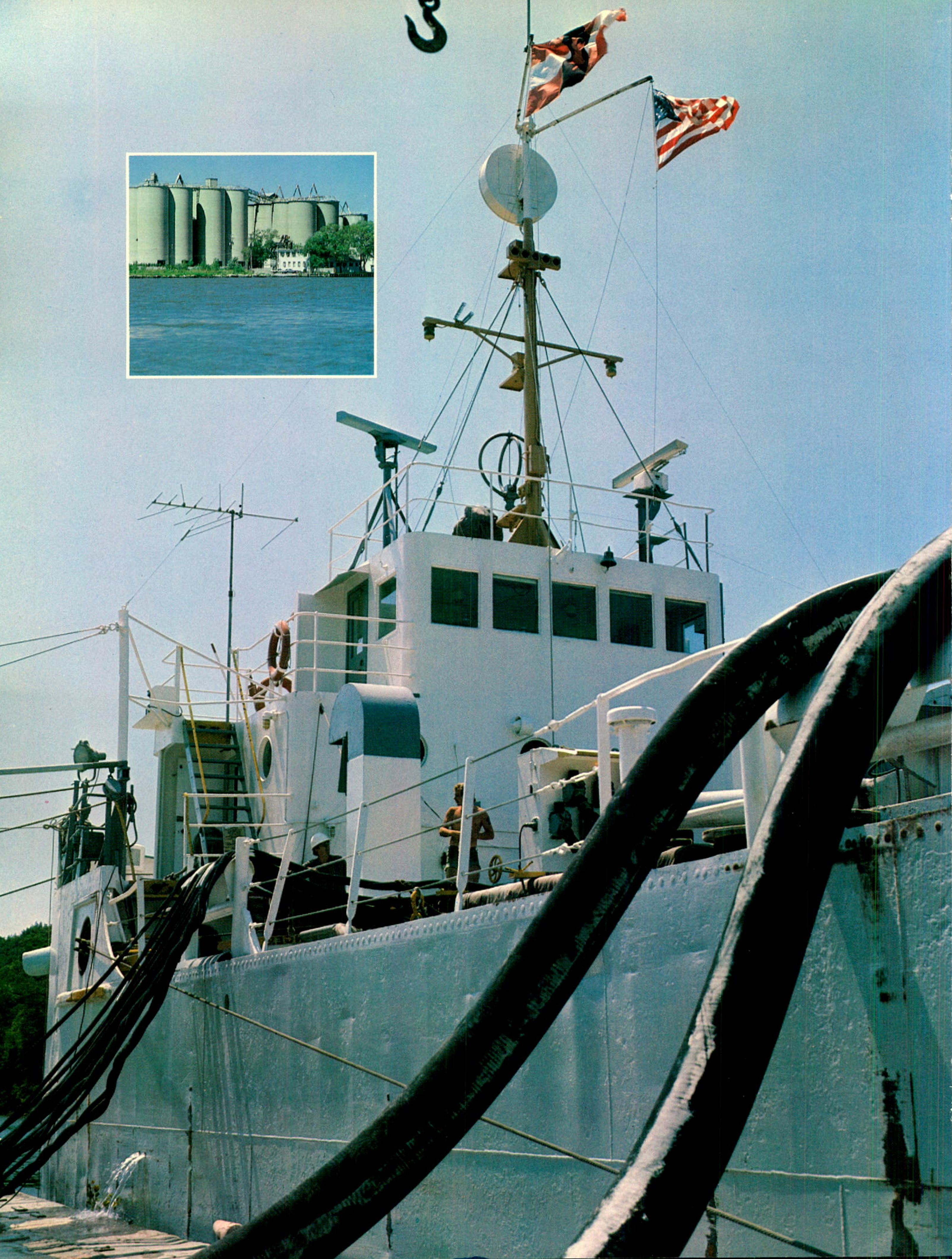
Opposite page: Aerial view of Picton, Ontario cement plant. With an annual capacity of 1.3 million metric tons, this operation ships product to markets on the Great Lakes.

Inset photo: The office building at the Picton, Ontario cement plant. This new building was constructed in 1980 and was further expanded in 1981.

This page:
1. Joseph S. Pal, Vice-President, Marketing (left) and John A. Clarke, Vice-President, Cement Manufacturing (right).

2. Cement tankers, with a capacity of approximately 40 tons, are used to deliver bulk shipments of cement from depots or plants to customers. The operator adjusts the air compressor unit used to unload the dry, powdered cement.



The Cement Group – U.S.A.

Opposite page: The MV Metis, with a capacity of 6,000 tons of cement and on charter from Canada Steamship Lines, unloads bulk cement at the Rochester, New York depot. Cement is being pumped from the ship through the large hoses in the foreground.

Inset photo: A view of the cement silos at the Aetna Cement Corporation, Essexville, Michigan plant. These silos provide a storage capacity of 70,000 tons of product.

This page:
1. Robert L. Forde, President, Rochester Portland Cement Corp. and Aetna Cement Corporation.

2. Improved road and water transportation are the result of the new bridge over the Saginaw River at Zilwaukee, Michigan. Shown here during the construction phase are the concrete support columns.

Two subsidiaries of Lake Ontario Cement Limited are Rochester Portland Cement Corp. and Aetna Cement Corporation. They service the needs of the Corporation's U.S. markets in western New York state and Michigan state.

Rochester Portland Cement Corp., with products supplied by ship from the Picton, Ontario facility, is a major distributor of cement across western New York state, with distribution depots at Rochester and Rome, New York.

1

Overall cement consumption in western New York state moved up from the level of 820,000 tons in 1980 to approximately 880,000 tons in 1981. This is still below the level of 925,000 tons in 1978, but reflects a slow yet steady resurgence in this area.

While there has been a modest revival in western New York state cement markets in 1981, consumption levels have been affected by the general performance of the U.S. economy and, specifically, by lack of housing starts in major urban centres. The one exception to the generally depressed market conditions has been the performance of the Buffalo area, where revitalization and renewal programs have led to a healthier demand for product. Some growth is expected in 1982 in this major market area, provided that interest rates ease and industrial construction improves as anticipated.

Aetna Cement Corporation, with facilities at Essexville, Michigan, produces both Portland and Masonry cements from clinker produced and shipped from the Picton, Ontario facility. Clinker, a semi-finished product, is ground into cement for markets throughout Michigan. The Michigan market did, however, experience depressed conditions for the second successive year. The automotive industry's poor performance in 1981 adversely affected the construction industry. Housing starts throughout the state, especially in Detroit, and commercial and engineering construction, which accompany residential development, declined sharply.

2

Michigan cement consumption estimated for 1981 at 1.9 million tons compares to 3.1 million tons in 1978. This level of cement consumption is the lowest in 31 years and reflects the dramatic drop in construction activity in the state. The decline in cement consumption was accompanied by depressed selling prices and, as a result, profit margins in this market area declined from 1980 levels. While projections for 1982 indicate stability in cement demand, an improved performance by the automotive industry is required before any significant recovery takes place.

The Pipe Group

Lake Ontario Cement Limited's long range plan of acquiring diversified companies that support and strengthen the Corporation's present manufacturing and marketing areas is evident in the purchase of three new subsidiary operations.

Combined, the acquired pipe and related product companies were significant in terms of both size and breadth of product line. They increased the sales of Lake Ontario Cement Limited in the order of 18% for the year and they make the Corporation one of the most significant manufacturers of concrete pipe and related products in eastern Canada.

Bestpipe Limited, Duracon Precast Industries Limited and Utility Vault Company of Canada Limited, manufacturers of concrete pipe and related products, were acquired in 1981 and their businesses form The Pipe Group, a new division of the Corporation. These operations provide geographical and product diversification complementary in market, production and engineering applications to the Corporation's traditional products. The Group has 260 employees and operates five plants in Ontario and Quebec. The plants have a total of 400,000 square feet of manufacturing space and an annual production capacity of 600,000 tons of concrete pipe and related products.

Bestpipe has three plants, two in Ontario and one in Quebec. The Ontario facilities located at Kitchener and Metcalfe manufacture horizontal concrete pipe and fittings ranging in size from 6 inches to 144 inches in diameter, making Bestpipe one of the largest manufacturers of concrete pipe in Ontario. A major part of its production is sold to private sector land developers in the Toronto-Whitby-Barrie area and in the Niagara Peninsula.

Vibrapipe Ltée, the Quebec operation of Bestpipe located at Blainville, manufactures a complete range of pipe products including concrete pipe up to 144 inches in diameter, manholes and catchbasins. This operation sells primarily to contractors and municipalities for major projects such as government sewage treatment plants and land development.

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Opposite page: Concrete sewer pipe is inspected before shipment at the Kitchener, Ontario plant of Bestpipe. Available in sizes from 6 to 144 inches, this pipe with an inside diameter of 102 inches was formed in 8 foot sections, each weighing approximately 28,000 pounds.

This page:
1. Ken Bruce, President, The Pipe Group.

2. Concrete manholes are stacked for storage at the Duracon plant in Mississauga, Ontario. Manholes provide essential junctions and access to sewer and water systems.


UV

Opposite page: The form is being removed from a section of culvert after casting at the Utility Vault facility near Guelph, Ontario (inset photo). In this process, concrete is poured into the form and the form is vibrated to induce compacting of the concrete. These box sections are used for culverts, storm sewers, small bridge replacements and watercourse relocations.

Duracon, located at Mississauga, Ontario, manufactures vertical pipe for catchbasins and manholes used primarily by sewer and watermain contractors, developers and municipalities.

Utility Vault Company of Canada Limited located near Guelph, Ontario, manufactures precast reinforced concrete box sections used as culverts, storm sewers, small bridge replacements and water course relocations. The potential exists for this company to manufacture other products and to transfer the technology used at its Guelph plant to other marketing areas in Ontario and Quebec.

Pipe is considered a leading indicator in the market cycle– when pipe sales are strong, for example, it usually indicates a pickup in residential and commercial construction. Particular market strength in the pipe area that was exhibited in Ontario and Quebec this past year is expected to continue and the outlook for 1982 appears reasonable.

The market base in Quebec, primarily with respect to servicing the requirements of sewage treatment facilities and related programs, is expected to continue to provide steady volume. In southern Ontario, product requirements in servicing industries and residential land development have also provided market buoyancy. Sales increases are expected with the revival of industrial and residential construction in the province.

The long term potential for the concrete pipe industry is excellent. Generally smaller size pipe is supplied today by the plastics industry. However, as the price of oil and oil derivatives increases the potential market for concrete pipe products grows.


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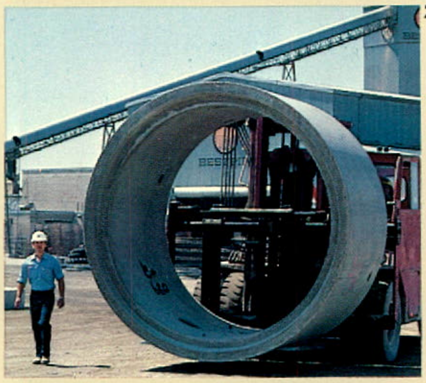
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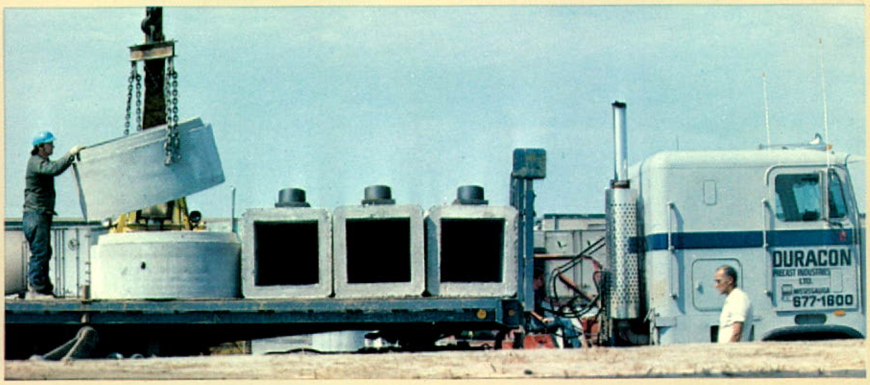


3

This page:
1. Hubert Daigle, General Manager, Vibrapipe Ltée (left); Robert S. Wood, Vice-President and General Manager, Bestpipe (centre); Paul A. Greer, Vice-President and General Manager, Duracon (right).

2. The Kitchener plant of Bestpipe is well located to serve the major industrial and commercial centres of Toronto, Hamilton and Kitchener-Waterloo, Ontario.

3. Concrete manhole sections (left) and catchbasins (right) are loaded for shipment at Duracon's Mississauga, Ontario plant.

The Premier Group

For ready-mixed concrete, concrete block, concrete brick and aggregates, The Premier Group is actively servicing major Ontario markets from twelve facilities located across the province. This group accounted for approximately 24% of the Corporation's sales in 1981.

Ready-mixed concrete, the most widely used construction material, is produced at eight manufacturing facilities at Ottawa, Oshawa, Scarborough, Toronto, Mississauga, Hamilton, Niagara Falls and Windsor. Its applications include heavy construction, residential construction, highways, sewers and watermains. The Premier Group has a fleet of more than 100 trucks operating on a computerized radio dispatch system to meet customer needs for precise timing in the delivery of ready-mixed concrete.

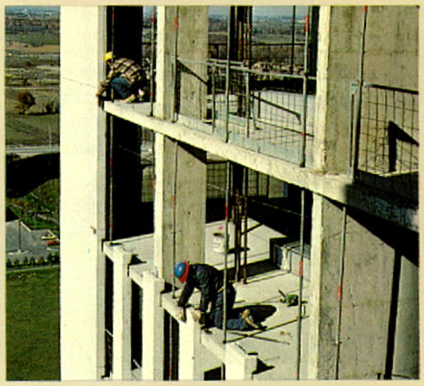
Concrete block is manufactured and marketed under the "Premier" name in the Windsor area and concrete brick and block bearing the name "Primeau Argo" are produced at three Metropolitan Toronto facilities. These products account for significant market volumes.

After a reasonable start in 1981, the market dropped significantly throughout the year for products of The Premier Group, particularly in response to the decline in the housing market in the second half.

Opposite page: An operator finishes a concrete floor after it has been poured by using a machine that both smooths and finishes at the same time.

This page:

1. Richard H. Grimm, President, The Premier Group.



2. Poured concrete is the principal material used in the construction of floors and support beams for most of today's modern commercial development.

The strongest market segment in 1981, particularly for residential construction, was the Metropolitan Toronto area, where surprising stamina was encountered during the first half of the year.

Although the market softened in the third and fourth quarters, projections are optimistic for the second half of 1982. Selling prices and profit margins in this particular market were low and, as a result, the ready-mixed concrete operation in Toronto suffered financial losses.

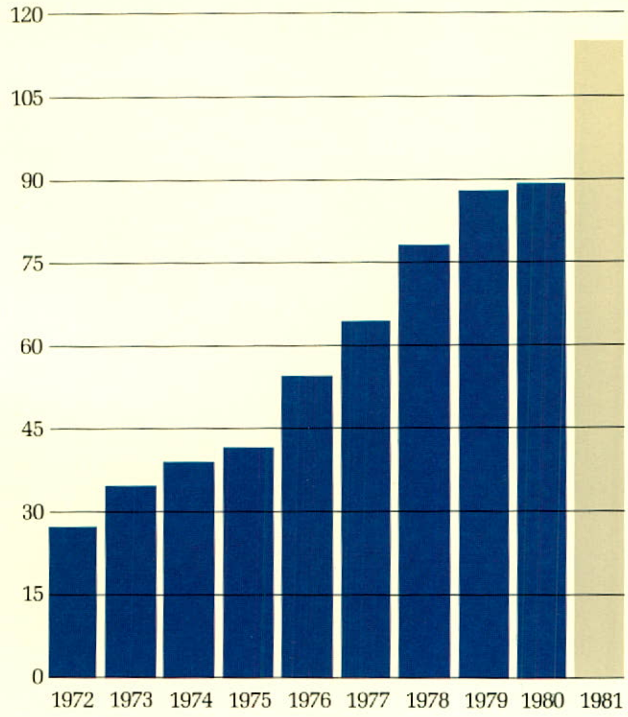
Elsewhere, Windsor remained a depressed market due to a poor year for the automotive industry. Hamilton and Niagara Falls were generally soft markets. Ottawa is expected to produce a strong market in 1982 with significant downtown redevelopment projects scheduled to come on-stream.

The Premier Group introduced two new products in 1981. The first, a new line of architectural block–PANL-WALL–was developed for use by mason contractors. The second, a rough-texture concrete brick, called "Provincial", was introduced for use in residential building, where concrete brick has proven an attractive, cost-efficient alternative to clay brick.

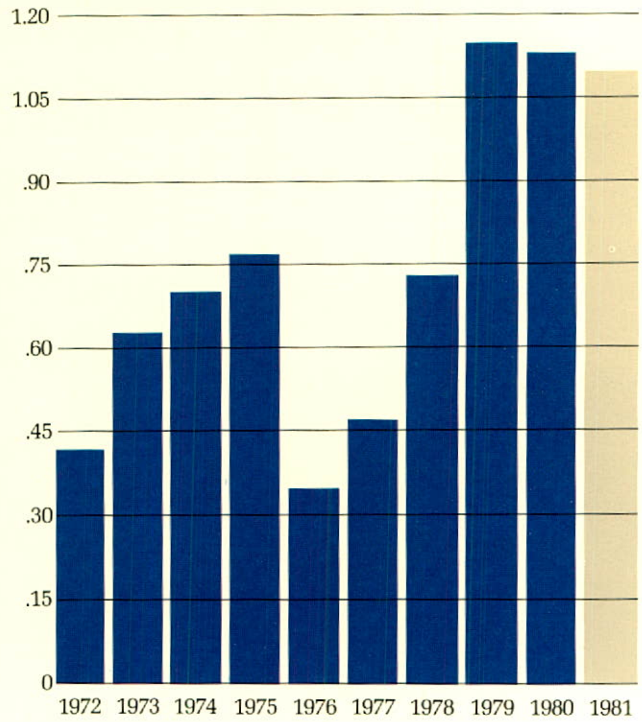
The Alton pit, which produced sand and gravel, is scheduled to be phased out this year due to depletion. This operation will be replaced through the ongoing development of a nearby property owned by the Corporation.

Financial trends at a glance

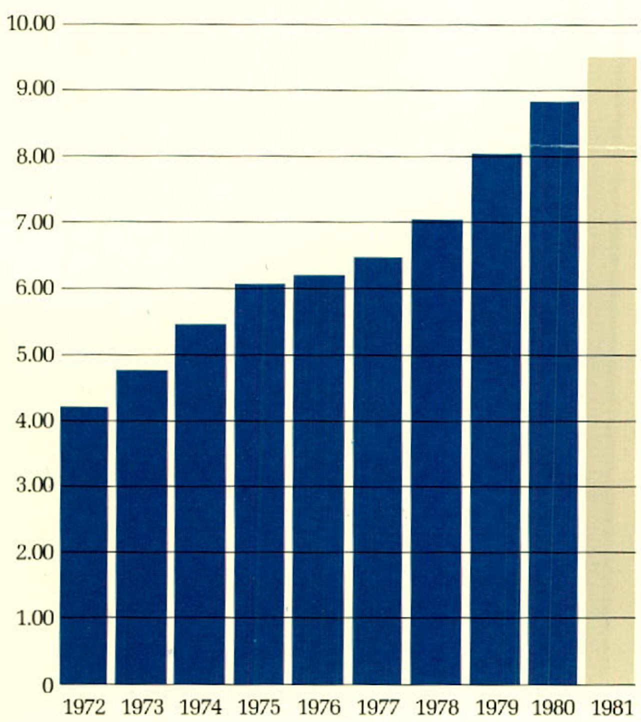
Sales
in millions of dollars



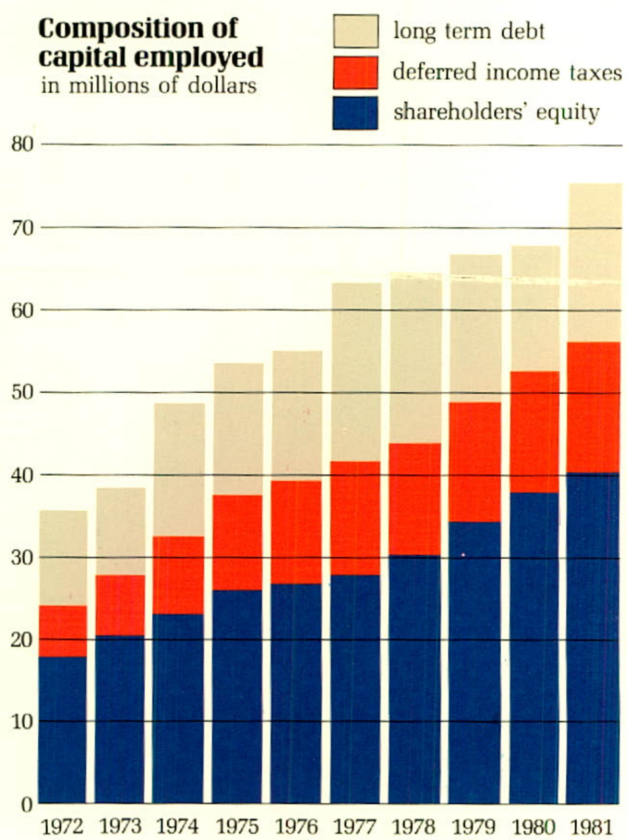
Net earnings per share
before extraordinary items
in cents per share



Shareholders' equity per share
after provision for income taxes
in dollars per share



Composition of capital employed
in millions of dollars



Lake Ontario Cement Limited

Consolidated financial statements, notes and summaries

for the year ended December 31, 1981

Consolidated balance sheet

as at December 31

Assets	1981	1980
Current assets		
Accounts receivable	**$ 22,246,423**	$15,624,644
Inventories (note 3)	**25,389,418**	21,844,441
Prepaid expenses	**536,002**	633,908
	48,171,843	38,102,993
Fixed assets (note 4)	**106,827,223**	92,987,123
Less: Accumulated depreciation and depletion	**47,839,974**	43,724,487
	58,987,249	49,262,636
	$107,159,092	$87,365,629

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

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, 1981 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, 1981 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.

Coopers & Lybrand,
Chartered Accountants

Toronto, Ontario,
January 11, 1982

Liabilities	1981	1980
Current liabilities		
Bank indebtedness	**$ 14,906,085**	$ 4,144,246
Accounts payable and accrued liabilities	**11,481,305**	7,764,072
Income taxes payable	**259,958**	4,605,500
Long-term debt due within one year (note 5)	**5,096,818**	2,922,128
	31,744,166	19,435,946
Long-term debt (note 5)	**18,947,464**	15,273,697
Deferred income taxes (note 6)	**11,695,151**	10,467,245
	62,386,781	45,176,888

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 (notes 5 and 6)	**35,569,689**	32,986,119
	44,772,311	42,188,741
	$107,159,092	$87,365,629

Signed on behalf of the Board of Directors

J. D. Fowler, Director

E. B. McConkey, Director

Consolidated statement of earnings

for the year ended December 31

	1981	1980
Sales	**$114,925,185**	$89,346,673
Cost of sales	**89,926,058**	69,992,455
Gross profit	**24,999,127**	19,354,218
Expenses		
Selling, general and administrative	**10,999,585**	8,148,224
Loss (gain) on translation of foreign currency	**404,820**	(117,546)
Interest on long-term debt	**2,772,109**	2,148,406
Other interest expense	**2,756,813**	843,466
	16,933,327	11,022,550
Operating profit	**8,065,800**	8,331,668
Provision for income taxes	**3,329,000**	3,475,000
Net earnings before extraordinary items	**4,736,800**	4,856,668
Extraordinary item–gain on sale of surplus land	**–**	575,325
Net earnings for the year	**$ 4,736,800**	$ 5,431,993
Net earnings per common share:		
Before extraordinary items	**$1.10**	$1.13
After extraordinary items	**$1.10**	$1.26

Consolidated statement of retained earnings

for the year ended December 31

	1981	1980
Retained earnings–beginning of year	**$32,986,119**	$29,492,034
Net earnings for the year	**4,736,800**	5,431,993
	37,722,919	34,924,027
Dividends	**2,153,230**	1,937,908
Retained earnings–end of year	**$35,569,689**	$32,986,119

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

Consolidated statement of changes in financial position

for the year ended December 31

	1981	1980
Source of working capital		
Net earnings before extraordinary items	**$ 4,736,800**	$ 4,856,668
Depreciation, depletion and amortization	**4,496,949**	4,091,867
Deferred income taxes	**621,416**	122,155
Funds provided from current operations	**9,855,165**	9,070,690
Capital lease obligations assumed	**220,605**	209,275
Extraordinary item–gain on sale of surplus land	**–**	575,325
	10,075,770	9,855,290
Application of working capital		
Fixed asset additions	**3,962,182**	4,192,027
Reduction in long-term debt	**2,624,118**	2,637,719
Acquisition of minority interest	**–**	924,000
Acquisition of businesses (note 2c)	**3,575,610**	–
Dividends	**2,153,230**	1,937,908
	12,315,140	9,691,654
Increase (decrease) in working capital	**(2,239,370)**	163,636
Working capital–beginning of year	**18,667,047**	18,503,411
Working capital–end of year	**$16,427,677**	$18,667,047

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

Notes to consolidated financial statements

for the year ended December 31, 1981

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.

(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, 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	2½% to 10%
Machinery and equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%
Leased:	
Equipment	16⅔% (term of lease)
Vehicles	10% to 25%

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

2. Acquisition of businesses

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

(a) On April 30, 1981, the Corporation purchased all the outstanding shares of Bestpipe Limited and Duracon Precast Industries Limited, manufacturers of concrete pipe, manholes and related products, with plants located at Kitchener, Mississauga and Metcalfe, Ontario and Blainville, Quebec. The details of this acquisition are as follows:

Fixed assets acquired at fair market values	$ 8,357,144
Working capital	1,817,510
	10,174,654
Less:	
Long-term debt assumed	4,075,000
Deferred taxes	426,971
	$ 5,672,683
Consideration given:	
Cash	$ 3,451,683
Notes payable (note 5)	2,221,000
	$ 5,672,683

(b) During 1981, the Corporation also purchased certain assets of Niagara Ready-Mix Limited and all the outstanding shares of Utility Vault Company of Canada Limited. The aggregate purchase price of these acquisitions, which consisted mainly of fixed assets, was $986,338. The purchase price comprised cash of $328,765 and issue of notes payable for $657,573 (note 5).

(c) The effect of the acquisitions mentioned in (a) and (b) above on the working capital of the Corporation is as follows:

Total consideration	$6,659,021
Less:	
Long-term debt issued as part of the consideration	1,112,823
Working capital of businesses acquired	1,970,588
Working capital used to acquire businesses	$3,575,610

3. Inventories

Inventories consist of:

	1981	1980
Finished and semi-processed products	**$12,560,099**	$ 8,585,706
Raw materials and fuel supplies	**7,090,024**	8,132,364
Maintenance and repair parts	**5,739,295**	5,126,371
	$25,389,418	$21,844,441

4. Fixed assets

(a) Fixed assets consist of:

	1981			1980
	Cost	**Accumulated depreciation and depletion**	**Net**	Net
Owned:				
Land and land improvements	**$ 7,560,852**	**$ 773,372**	**$ 6,787,480**	$ 2,490,837
Mineral properties	**2,852,802**	**819,521**	**2,033,281**	2,045,743
Buildings and structures	**21,250,044**	**7,383,265**	**13,866,779**	10,721,907
Machinery and equipment	**61,928,589**	**30,797,362**	**31,131,227**	29,793,298
Vehicles and mobile equipment	**11,814,859**	**7,510,863**	**4,303,996**	3,357,523
Leased:				
Equipment	**252,422**	**115,693**	**136,729**	178,799
Vehicles	**1,167,655**	**439,898**	**727,757**	674,529
	$106,827,223	**$47,839,974**	**$58,987,249**	$49,262,636

(b) Included in the cost of fixed assets at December 31, 1981 are fully depreciated assets with an original cost of $19,739,338.

5. Long-term debt

Long-term debt consists of:

	1981			1980
	Due within one year	**Long-term portion**	**Total**	Total
9¾% debenture due 1982-1994	**$ 860,000**	**$10,340,000**	**$11,200,000**	$12,060,000
Demand bank loan at Canadian prime rate, with repayments scheduled monthly 1982-1987	**744,000**	**3,431,000**	**4,175,000**	–
Promissory notes, with interest at 12%, due 1982-1983 (note 2(a))	**1,665,750**	**555,250**	**2,221,000**	–
Promissory notes, with interest at 14%, due 1982-1985 (note 2(b))	**100,000**	**557,573**	**657,573**	–
Promissory note, with interest at 9%, due 1982-1983 (U.S. $1,900,000)	**1,130,500**	**997,500**	**2,128,000**	3,125,500
Term bank loan, with interest at U.S. prime rate, due 1986 (U.S. $2,000,000)	**–**	**2,100,000**	**2,100,000**	2,170,000
Mortgages, with interest varying between 11% and 12¼%, due 1982-1990	**309,156**	**540,751**	**849,907**	86,430
Capital portion of lease obligations, with interest at rates from 8% to 16%, due 1982-1985	**287,412**	**425,390**	**712,802**	753,895
	$5,096,818	**$18,947,464**	**$24,044,282**	$18,195,825

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:

1982	$4,809,406
1983	3,311,793
1984	1,765,899
1985	2,030,544
1986	3,781,282

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 agreement providing for the issue of this debenture requires that consolidated working capital be maintained at a specified level and allows the 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. At December 31, 1981 consolidated working capital and consolidated net tangible assets exceeded the required levels.

The 9% promissory note is secured by a mortgage on land, buildings and machinery located at 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 $435,000.

6. Deferred income taxes

The total deferred income taxes to December 31, 1981 amount to $15,817,151 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 has been continued under the Canada Business Corporations Act and is authorized to issue an unlimited number of common and preferred shares without nominal or par value. At December 31, 1981, 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 installments, representing a discount of not more than 15% from the market price at the time of allotment. As at December 31, 1981, there were no outstanding allotments under this plan which had not been fully paid.

8. Commitments and contingencies

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, 1981, are as follows:

	Capital leases	Operating leases
1982	$368,000	$2,314,000
1983	279,000	2,236,000
1984	186,000	2,108,000
1985	15,000	192,000
1986	—	69,000
Subsequent	—	681,000
Total minimum lease payments	848,000	$7,600,000
Less: Amount representing interest	135,000	
Obligations under capital leases	$713,000	

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

9. Pension plans

The Corporation and its subsidiaries have employee retirement pension plans covering substantially all employees.

Pension costs for current service are charged to earnings in the year incurred. The liability for past service is being funded and charged to earnings over varying periods up to 16 years.

Based on December 31, 1980, actuarial valuations, the unfunded liability for past service as at December 31, 1981, is estimated to be $3,082,000 of which approximately $620,000 is fully vested. Total pension expense was $1,370,000 for 1981, including payments of $400,000 for the unfunded liability.

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	1981	1980
Sale of products to outside customers:		
Canada	**$ 73,065,622**	$ 50,692,374
United States	**41,859,563**	38,654,299
Inter-area sales by:		
Canada	**23,710,450**	21,211,064
United States	**1,057,906**	2,250,434
	139,693,541	112,808,171
Elimination of inter-area sales	**24,768,356**	23,461,498
Total sales per consolidated statement of earnings	**$114,925,185**	$ 89,346,673
Contributions to earnings from:		
Canadian operations	**$ 7,710,120**	$ 6,235,420
United States operations	**355,680**	2,096,248
	8,065,800	8,331,668
Less: Provision for income taxes	**3,329,000**	3,475,000
Net earnings before extraordinary items	**$ 4,736,800**	$ 4,856,668
Identifiable assets analyzed by geographic area:		
Canada	**$ 89,995,243**	$ 71,900,862
United States	**16,332,552**	14,933,387
Corporate assets	**831,297**	531,380
Total assets per consolidated balance sheet	**$107,159,092**	$ 87,365,629

Ten year financial summary

Dollars in thousands, except amounts per share

	1981	1980	1979
Operating results			
Sales	**$114,925**	$89,346	$88,317
Cost of sales	**89,926**	69,992	69,340
Gross profit	**24,999**	19,354	18,977
Selling, general and administrative expenses	**10,999**	8,148	7,451
Loss (gain) on foreign exchange	**405**	(117)	88
Interest on long-term debt	**2,772**	2,148	2,299
Other interest	**2,757**	843	326
	16,933	11,022	10,164
Operating profit	**8,066**	8,332	8,813
Provision for income taxes	**3,329**	3,475	3,854
Net earnings before minority interest, income from investment and extraordinary items	**4,737**	4,857	4,959
Minority interest in net earnings of subsidiary company			(16)
Investment income on equity basis			
(Loss) gain on disposal of fixed assets			
Extraordinary items		575	950
Net earnings for the year	**$ 4,737**	$ 5,432	$ 5,893
Balance Sheet			
Working capital	**$ 16,428**	$18,667	$18,503
Fixed assets–net	**58,987**	49,263	49,265
Long-term debt	**18,947**	15,274	17,784
Deferred income taxes (2)	**15,817**	14,589	14,467
Shareholders' equity (2)	**$ 40,650**	$38,067	$34,573
Other information			
Funds provided from current operations (1)	**$ 9,855**	$ 9,071	$ 9,326
Capital expenditures	**4,125**	4,469	5,128
Depreciation and depletion	**4,497**	4,092	4,056
Common share price range			
High	**8.50**	7.50	6.25
Low	**$ 5.75**	$ 5.00	$ 4.85
Number of common shareholders	**2,769**	3,052	3,237
Return on average shareholders' equity (1 & 2)	**12.0%**	13.3%	15.3%
Per common share			
Earnings (1)	**$ 1.10**	$ 1.13	$ 1.15
Funds provided from current operations (1)	**2.29**	2.11	2.17
Common dividends	**0.50**	0.45	0.35
Shareholders' equity (2)	**$ 9.44**	$ 8.84	$ 8.03

Notes: (1) Before extraordinary items.
(2) After full provision for deferred income taxes—see notes to the financial statements.

1978	1977	1976	1975	1974	1973	1972
$78,364	$64,641	$54,845	$41,833	$39,398	$34,883	$27,338
64,186	53,167	44,810	31,469	30,155	26,483	20,926
14,178	11,474	10,035	10,364	9,243	8,400	6,412
6,852	5,756	4,869	3,688	3,152	2,758	2,348
(382)	(262)	(116)				
2,277	2,023	1,615	1,553	1,361	1,089	1,081
362	637	1,001	(8)	(272)	35	17
9,109	8,154	7,369	5,233	4,241	3,882	3,446
5,069	3,320	2,666	5,131	5,002	4,518	2,966
1,902	1,262	1,126	2,045	2,230	1,818	1,440
3,167	2,058	1,540	3,086	2,772	2,700	1,526
(17)	(50)	(55)				
			128	226	213	274
			111		(188)	
				482		
$ 3,150	$ 2,008	$ 1,485	$ 3,325	$ 3,480	$ 2,725	$ 1,800
$16,836	$14,821	$ 6,909	$ 2,393	$10,340	$ 3,966	$ 6,253
48,546	49,126	48,817	48,207	35,604	31,877	27,375
20,245	21,338	15,239	15,698	15,822	10,363	11,070
14,168	14,168	13,146	11,842	9,502	7,702	6,582
$30,166	$27,877	$26,730	$26,106	$23,426	$20,462	$18,077
$ 7,116	$ 7,258	$ 6,386	$ 7,770	$ 7,467	$ 6,230	$ 3,816
3,132	1,848	2,325	15,434	6,724	7,103	2,774
3,937	4,024	3,688	2,769	2,669	2,293	2,105
5.87	3.60	4.20	3.85	4.40	4.90	4.30
$ 3.25	$ 3.05	$ 3.05	$ 2.80	$ 2.30	$ 3.15	$ 2.70
3,598	3,915	4,094	4,187	4,264	4,400	4,805
10.9%	7.4%	5.6%	13.4%	15.9%	14.1%	10.5%
$ 0.73	$ 0.47	$ 0.35	$ 0.77	$ 0.70	$ 0.63	$ 0.42
1.65	1.69	1.48	1.81	1.74	1.45	0.89
0.20	0.20	0.20	0.15	0.12	0.10	
$ 7.01	$ 6.48	$ 6.21	$ 6.07	$ 5.45	$ 4.76	$ 4.23

Directors and corporate information

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, 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,
Corporate Affairs,
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
Toronto, Ontario
Chairman and President,
Denison Mines Limited

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

Officers
Stephen B. Roman, Chairman of the Board

John D. Fowler, President

John A. Clarke, Vice-President, Cement Manufacturing

Joseph S. Pal, Vice-President, Marketing

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

Robert W. Denham, Corporate Controller

J. Scott Cowan, Assistant Secretary

Charles A. Gibbs, Assistant Treasurer

Head Office
2 Carlton Street, Toronto, Ontario
M5B 1J6

Subsidiaries
Aetna Cement Corporation,
Essexville, Michigan

Rochester Portland Cement Corp.,
Rochester, New York

Utility Vault Company of Canada, Limited
Guelph, Ontario

Auditors
Coopers & Lybrand, Toronto, Ontario

Transfer Agent and Registrar
Guaranty Trust Company of Canada,
Toronto, Ontario

Stock Listing
Toronto Stock Exchange
Stock Symbol "LOP"

Corporate organizational information

The Cement Group

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J. A. Clarke, Vice-President, Cement Manufacturing
J. S. Pal, Vice-President, Marketing
G. R. Wilson, General Sales Manager, Canada
L. P. Finnegan, Plant Manager, Picton

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Sales Office:
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Toronto, Ontario M5A 3L2
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Windsor Distribution Depot:
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Coniston (Sudbury) Distribution Depot:
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J. S. Pal, Vice-Chairman
R. L. Forde, President
K. L. Neering, Vice-President, Marketing and Sales
L. D. Van Sumeren, Controller and Administration Manager
A. M. Walraven, Plant Manager

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Division:
Mohawk Valley Cement Company

J. D. Fowler, Chairman of the Board
J. S. Pal, Vice-Chairman
R. L. Forde, President
D. R. T. White, Vice-President, Finance and Secretary
H. W. Ingmire, Vice-President, Sales

The Premier Group

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P. M. Thomas, Sales Manager, Unit Masonry

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Utility Vault Company of Canada Limited:
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J. D. Fowler, Chairman of the Board
K. Bruce, President
R. S. Wood, Vice-President and General Manager

Design by Craib Corporate Graphics Inc.
Production by Rous, Mann & Brigdens Limited

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