Lake Ontario Cement Limited
Annual Report 1980

Lake Ontario Cement Limited

The Company's business

Lake Ontario Cement Limited was founded in 1956 and is the only Canadian controlled public cement company. The Company supplies cement to the Great Lakes market regions and concrete products to the Province of Ontario, and employs some 850 people in both the U.S.A. and Canada.

The Company's common stock is listed on the Toronto Stock Exchange and has been publicly traded since 1961. Some 54% of the Company's stock is owned by Denison Mines Limited, a major Canadian energy company.

The Company manufactures cement and clinker (a semi-finished product) at a modern plant rated at 1.3 million metric tons of annual capacity, and located at Picton, near the eastern end of Lake Ontario. Shipment of the plant's output is mainly by water to storage/distribution depots in Toronto and Windsor in Ontario, to Rome and Rochester in New York State and to a grinding plant, for further finishing, in Essexville, Michigan.

The Company is a substantial supplier of cement in Ontario and, through its wholly-owned subsidiaries Rochester Portland Cement Corp. and Aetna Cement Corporation, in Western New York State and Michigan. Cement is sold under the *Lake Ontario, Aetna, Rochester Portland* and *Mohawk Valley* brand names to a wide variety of customers. Additionally, an Ontario operating division, The Premier Group, manufactures and distributes concrete block, concrete brick and ready-mixed concrete; the Group also supplies sand and gravel to the Toronto area from a nearby aggregate operation.

The ready-mixed concrete product is manufactured at seven plants located in Greater Toronto, Oshawa, Hamilton, Windsor and Ottawa. Delivery to construction sites is by a fleet of approximately 100 concrete mixer trucks. Other concrete products are manufactured in four plants, three located in Toronto and one in Windsor, with delivery to customers by a fleet of over 30 trucks.

The Company 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

Commercial construction in Metropolitan Toronto has been one of the bright spots during several months of a recession-induced slowdown of the construction industries in both Canada and the United States. Against a background of Toronto's downtown office core, ready-mixed concrete supplied by The Premier Group is lowered for placement at a new bank data centre. The photo was taken in October, 1980.

Contents

Financial highlights

	for the year ended December 31 1980	1979	Increase (Decrease)
Financial			
Sales	**$89,346,673**	$88,317,149	1%
Net earnings before extraordinary items	**4,856,668**	4,943,462	(2%)
Extraordinary items	**575,325**	950,000	—
Net earnings for the year	**5,431,993**	5,893,462	(8%)
Funds provided from current operations	**9,070,690**	9,326,231	(3%)
Capital expenditures	**4,469,165**	5,127,951	(13%)
Working capital	**18,667,047**	18,503,411	1%
Long-term debt (non-current portion)	**15,273,697**	17,783,550	(14%)
Shareholders' equity	**42,188,741**	38,694,656	9%
Per common share			
Net earnings			
Before extraordinary items	**1.13**	1.15	
After extraordinary items	**1.26**	1.37	
Funds provided from current operations	**2.11**	2.17	
Dividends	**0.45**	0.35	
Shareholders' equity	**8.84**	8.03	
Statistical data			
Number of common shareholders	**3,052**	3,237	
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	
	1980	1979	**1980**	1979	**1980**	1979
1st quarter	**$ 9,486**	$ 7,721	**$ (2,185)**	$ (2,291)	**$ (0.51)**	$ (0.53)
2nd quarter	**25,572**	25,724	**2,095**	2,495	**0.49**	0.58
3rd quarter	**30,546**	31,798	**2,718**	3,019	**0.63**	0.70
4th quarter	**23,743**	23,074	**2,229**	1,720	**0.52**	0.40
	$89,347	$88,317	**$ 4,857**	$ 4,943	**$ 1.13**	$ 1.15
Extraordinary items	**—**	—	**575**	950	**0.13**	0.22
	$89,347	$88,317	**$ 5,432**	$ 5,893	**$ 1.26**	$ 1.37

Report to the shareholders

Stephen B. Roman, Chairman of the Board

John D. Fowler, President

On behalf of the Board of Directors of Lake Ontario Cement Limited, I am pleased to report that sales and earnings of the Company for the year ended December 31, 1980 were remarkably good considering the depressed economic climate which prevailed during the year. Consolidated sales for the twelve months ended December 31, 1980 were $89,346,673, just slightly more than the sales of $88,317,149 for the year ended December 31, 1979. Consolidated net earnings for the year were $4,856,668 ($1.13 per share) compared to the record net earnings of $4,943,462 ($1.15 per share) in 1979. 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). Extraordinary items of $950,000 ($0.22 per share) brought total earnings in 1979 to $5,893,462 ($1.37 per share).

The marginal increase in sales occurred in spite of a decline of almost 10% in the level of cement shipments and an even more severe drop in clinker export shipments. These declines were offset by increased shipments of concrete products, principally ready-mixed concrete, and appropriate price increases for products. The reduced cement and clinker demand forced the Company to shut down the kilns at the Picton cement plant for six weeks to adjust inventories, the first time there has been a shutdown of all the kilns at this plant.

Net operating earnings for the year 1980 were close to those of 1979 because of a combination of factors. On the negative side, earnings were adversely affected by the lower level of cement and clinker shipments, high interest rates for borrowed funds and inadequate margins on ready-mixed concrete sales, particularly in the Metropolitan Toronto area. Positive factors were the improved thermal and operating efficiency of the preheater kiln at Picton and its ability to burn a higher percentage of coal instead of natural gas, an improvement in margins in the Cement Group, a favourable exchange rate on the Canadian dollar, and productivity improvements arising from the acquisition of full ownership of Primeau Argo Block Co. Limited and subsequent amalgamation with it in 1980.

Capital Expenditures

Capital expenditures for the year totalled $4,469,165 compared to $5,127,951 in 1979. The most significant expenditures were made at the Picton cement plant with a view to improving production efficiency. They included the upgrading of quarry and crushing facilities, major improvements to the coal mill and feed systems of the preheater kiln, and new plant and office facilities.

Dividends

Dividends paid in 1980 totalled $1,937,908 (45¢ per share), an increase of 28% from the $1,507,261 (35¢ per share) paid in 1979. Payments were made in April, 1980 and October, 1980 of 22½¢ per share.

Financial condition

The Company's financial position is sound. Working capital increased to $18,667,047 from $18,503,411 at the end of the previous year and $2,940,485 of long-term debt was repaid during the year. Long-term debt, non-current portion, now totals $15,273,697 and shareholders' equity $42,188,741, almost a 1:3 debt to equity ratio. Funds provided from current operations were $9,070,690 in 1980, compared to $9,326,231 for 1979.

Outlook

The consumption of cement and concrete is sensitive to the prevailing level of construction activity which, in turn, reflects both national and regional economic conditions. The outlook for the economies of both Canada and the U.S.A. in 1981 is uncertain and the recovery from the 1980 recession is anticipated to be hesitant and protracted.

The resumption of monetary restraint in the U.S.A. is clearly stifling the recovery which had begun in that country in the third quarter of 1980. The parallel rise of Canadian interest rates has led, inevitably, to a similar delay of recovery in Canada. Less restrictive monetary policies, even if invoked early in 1981, will not be reflected in enhanced construction activity until the latter part of the year. The Canadian outlook is further clouded by governmental failure to reach an accord on energy pricing.

Fortunately, the picture is by no means one of unrelieved gloom. In both our Canadian and U.S. markets, residential construction should show modest recovery in the second half of 1981 and there are also bright spots throughout our market areas for commercial and industrial construction projects. Overall, we anticipate that cement shipments in the Company's two U.S. market areas, Michigan and Western New York State, will exhibit modest cyclical recovery later in 1981, while cement and concrete product shipments in Ontario are anticipated to be similar to those achieved in 1980. Based on this market assessment, together with a continuation of a favourable differential in the Canadian-U.S.A. exchange rate and a decline in interest rates to more traditional levels, the Company's results for 1981 are expected to be modestly better than those achieved in 1980.

Management is of the opinion that increased profitability can best be accomplished by growth and the broadening of the Company's market areas and products base. The relatively strong financial position of the Company allows for expansion and acquisitions and appropriate opportunities are being sought in both the U.S.A. and Canada.

Directors

Two new Directors joined your Board in 1980: Mr. G. Ernest Jackson and Mr. Denis R. T. White. Mr. Jackson is Senior Vice-President of Reed Stenhouse Limited and his broad business experience is welcomed by your Board. Mr. White, Vice President Administration and Finance and Secretary, joined Lake Ontario Cement Limited in 1970.

Organization and management

During the year a major change took place in Company organizational structure and, as well, several senior managerial appointments were made. Early in 1980 the Company acquired all the outstanding shares of the partly controlled subsidiary company Primeau Argo Block Co. Limited and subseqently the business of this company was merged with the Premier Concrete Products Division to form The Premier Group. This Group encompasses all manufacturing and sales activities associated with ready-mixed concrete, concrete block and brick, aggregates and building materials. For this group, Mr. Ken Bruce, formerly Vice President and General Manager of Premier Concrete Products, was named President; Mr. Richard H. Grimm, formerly President of Primeau Argo Block Co. Limited, was appointed Executive Vice President of Marketing and Mr. Stanley W. Knott, formerly Manager-Operations, Premier Concrete Products, was appointed Vice President-Operations.

In the Cement Group, Mr. John A. Clarke, formerly Manager-Operations, was appointed Vice President-Cement Manufacturing and Mr. Joseph S. Pal joined the Company in August as Vice President-Marketing, responsible for the marketing of cement in the U.S.A. and Canada. Mr. Ian M. MacLachlan, formerly President, Aetna Cement Corporation, was appointed Vice Chairman of the Board and Mr. Robert L. Forde, President of Rochester Portland Cement Corp. was also appointed President of Aetna Cement Corporation. Mr. H. W. Ingmire was appointed Vice President of Sales for Rochester Portland Cement Corp.

Two additions to the Corporate management group were Mr. Robert W. Denham as Corporate Controller and Mr. J. Scott Cowan as General Counsel and Assistant Secretary.

The Board of Directors expresses its appreciation of the dedicated efforts of the employees during the year and is grateful to the many loyal customers who continue to support your Company.

On behalf of the Board of Directors,

J. D. Fowler
President

January 12, 1981

1980 in review: The Company's operations in Canada

Canadian Cement Division

The Canadian Cement Division markets a comprehensive range of cements throughout Ontario. Distribution depots are located at Toronto, Windsor and Coniston, as well as at the Picton plant.

The depressed condition of the Ontario construction industry in general, and of residential construction in particular, is reflected in total provincial cement consumption which was approximately 10% lower in 1980 than in 1979. The Company's cement shipments declined somewhat less than that of the overall consumption, but profit margins were slightly improved over 1979 levels.

The impact of recession has been far from uniform in Ontario, and a handful of local markets has exhibited surprising stamina. In particular, the level of commercial construction activity in Metropolitan Toronto in 1980 has been almost reminiscent of the headier years of a decade ago, and cement sales in the Toronto region have been correspondingly buoyant.

The Premier Group

The Premier Group manufactures and markets ready-mixed concrete, concrete block, concrete brick and aggregates in major Ontario markets.

Ready-mixed concrete The Group is active in the Windsor, Hamilton, Toronto, Oshawa and Ottawa regions. The overall volume of ready-mixed concrete placed by the Group increased significantly in 1980 as compared with 1979, despite generally soft market conditions. The strongest market segments were represented by industrial construction in the Windsor and Hamilton regions, and by commercial construction in the Toronto region. Selling prices of ready-mixed concrete continue to be unsatisfactory, especially so in the Toronto region where margins remain inadequate.

Concrete block and concrete brick The Group manufactures "Primeau Argo" concrete block and concrete brick at three plants in the Metropolitan Toronto area. As well, concrete block is manufactured and marketed under the "Premier" name in the Windsor region. Group sales of block declined slightly in 1980 reflecting a province-wide decline of shipments by the Ontario block industry. Sales of concrete brick increased by over 30% in 1980 in the face of considerable weakness in the residential construction market. Concrete brick is now firmly entrenched as an attractive and cost-effective competitor of the more traditional clay brick.

Aggregates The depletion of the Toronto region pit is imminent and work is beginning on the development of a nearby sand and gravel property owned by the Company. The Group is assured of an adequate supply of aggregates throughout the transition period.

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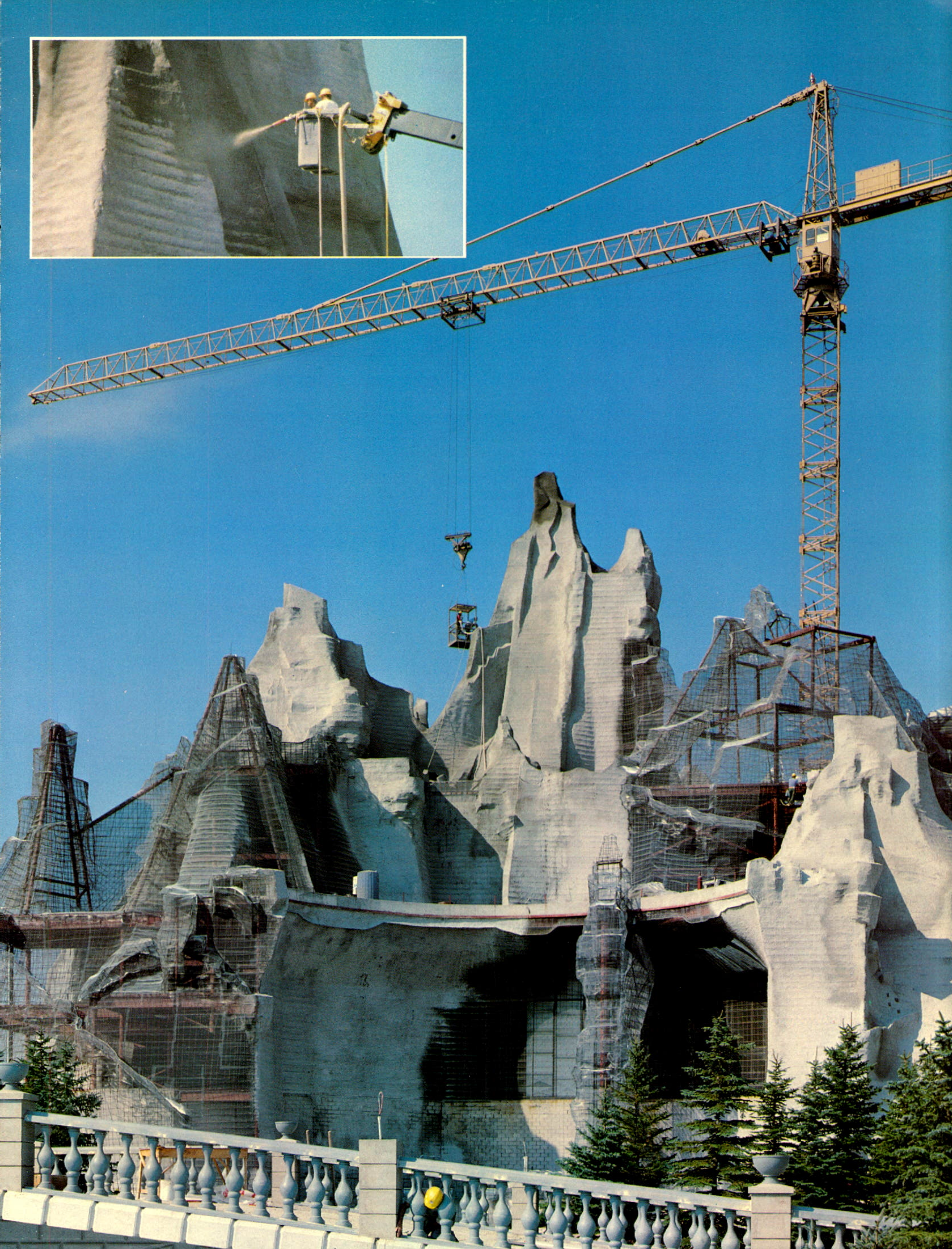
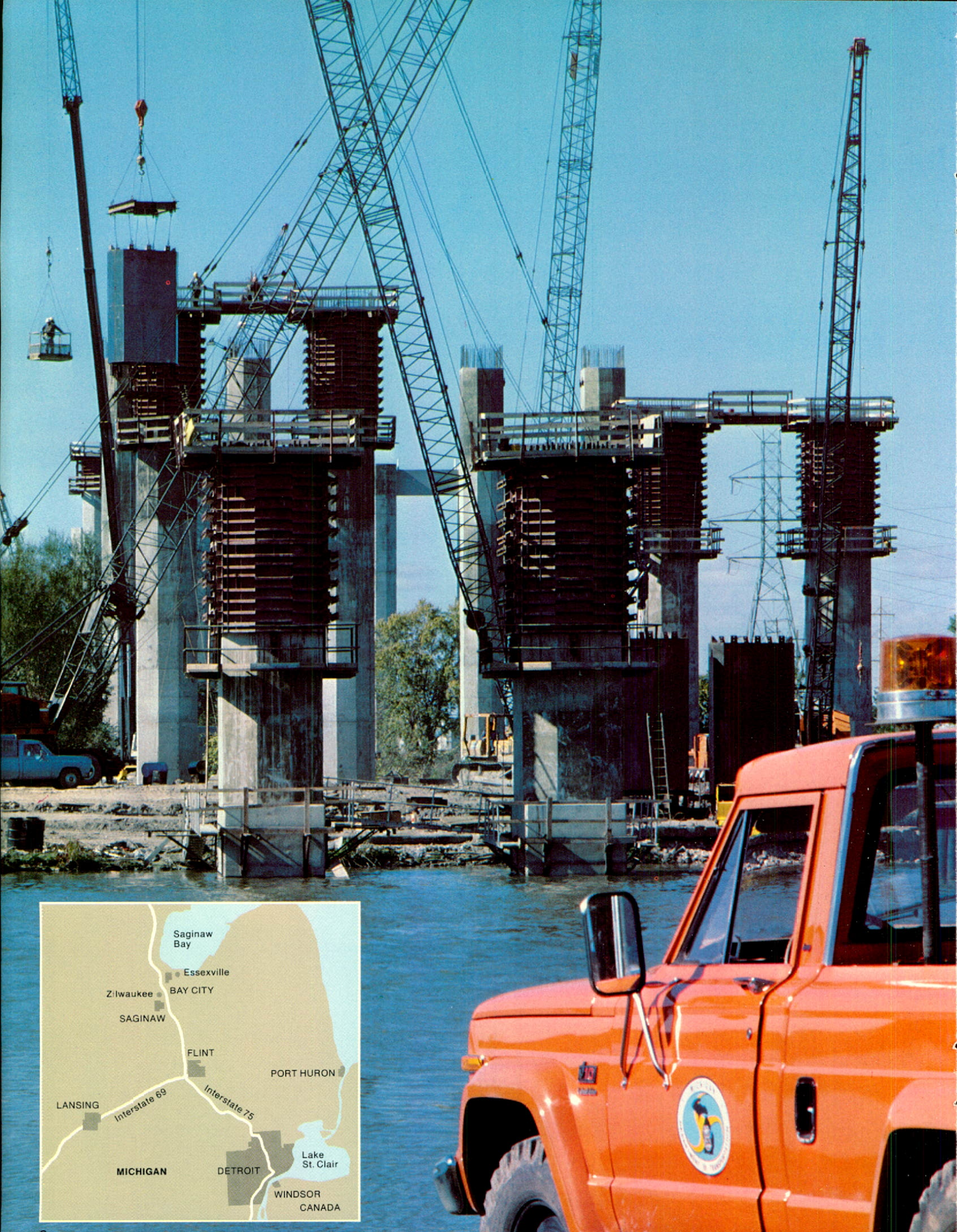
1 Premier's fleet of more than 100 trucks help the company meet customer needs for precise timing in the delivery of ready-mixed concrete from seven strategically-located plants in the Toronto, Hamilton, Windsor and Ottawa areas of Ontario.

2 Concrete building materials can be provided in a variety of colors and textures which compete aesthetically with other architectural finishes. This is one of The Premier Group's biggest current sellers – Ontario Range Architectural Split Rib Block. It is used here for a new church at the corner of Albion and Martin Grove Roads in the Rexdale area of Metropolitan Toronto.

3 In one of the more unique applications in the Company's Ontario market area, cement in the form of Gunite is blown onto a steel and mesh framework for a man-made mountain which forms the centrepiece for Canada's Wonderland. The \$115 million 320-acre theme park is a first in Canada. It is nearing completion on a site 32 kilometres (19 miles) northwest of downtown Toronto and opens to the public in May, 1981.

▶




Saginaw Bay
Essexville
Zilwaukee
BAY CITY
SAGINAW
FLINT
PORT HURON
LANSING
Interstate 69
Interstate 75
Lake St. Clair
MICHIGAN
DETROIT
WINDSOR
CANADA

1980 in review: The Company's operations in the U.S.A.

Cement is shipped from the Picton plant directly to distribution depots located at Rochester and Rome in New York State, and operated by Rochester Portland Cement Corp., a wholly-owned subsidiary. Rochester Portland is a major cement supplier across Western New York State.

Additionally, clinker is shipped from Picton to the Aetna Cement Corporation of Essexville, Michigan, another wholly-owned subsidiary. Aetna grinds the clinker into cement, and serves the central Michigan cement market from a substantial distribution depot adjacent to its plant.

Rochester Portland Cement Corp.

Recession in the U.S. economy has been reflected in depressed construction activity in Western New York State. In turn, industry-wide regional cement consumption in 1980 ran approximately 12% below its 1979 level; the corresponding decline in corporate shipments was less severe. Cement prices in Western New York State were firm in 1980, but remained modest by comparison with the price levels prevailing in most other areas of the U.S.A.

Although the residential construction market in Western New York State has shown no particular strength since 1973, regional housing starts held up better in 1980 than did housing starts in the total U.S.A. Engineering construction and highway paving were relatively strong regional market segments in 1980 and there were hopeful signs of a modest revival of commercial and industrial construction in several areas within the region.

Aetna Cement Corporation

Despite its considerable non-automotive manufacturing industry, Michigan remains very much the Automobile State. The year 1980 ran true to historical form and the considerable hardships suffered by the auto makers have been borne, too, by the Michigan construction industry. The State's consumption of cement declined in 1980 by approximately 33% from the 1979 level. Cement prices in Michigan remained relatively firm in 1980 despite the pronounced market weakness both in Michigan and in neighbouring states. Aetna's shipments were down because of the overall decline in consumption but not to the same extent.

While the impact of recession was felt across the State's entire construction industry, residential construction was especially hard hit. Housing starts in 1980 will probably total no more than 50% of those in 1979 which, in turn, had declined by nearly 20% from their 1978 peak. The contraction of housing starts in 1980 was echoed by a decline in the commercial and engineering construction which usually complements suburban residential development: shopping centres, local roads, water and sewage facilities and institutional buildings.

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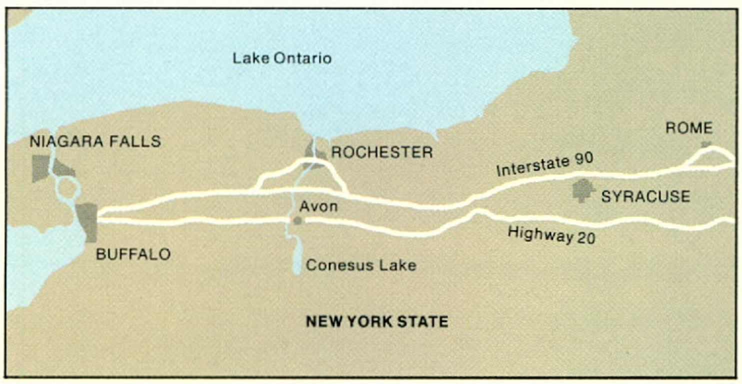

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◀ **1** The Company supplies a significant share of the cement market in Michigan. This new bridge being built at Zilwaukee, Michigan replaces an older river crossing and is typical of the major requirement for cement in the replacement of infrastructure in the more developed parts of North America.

2 New highway and street construction, while past the peaks of the Fifties and Sixties, continues to be a major user of cement (absorbing approximately 22% of all cement sold in the U.S. in 1979). This project, being supplied by the Rochester Portland Cement Corp., a subsidiary of Lake Ontario Cement, is the new Genesee Expressway, part of Interstate Route 509 in Western New York State.

3 This bridge over Conesus Creek near Avon, New York, is part of the Genesee Expressway project. Rochester Portland Cement supplies the cement market requirements of Western New York State from distribution depots at Rochester and Rome.

The construction industries in transition

Thirty years of urban growth

The thirty years following the Second World War saw economic growth in North America of unprecedented scale and duration. Rapid population growth in both Canada and the U.S.A. was outpaced by an even more rapid growth in real gross national product.

During those years of relentless growth, much of the present urban infrastructure was put in place. Born of under-housing in the immediate post-war years, the boom in residential construction soon grew into full-fledged urban development. Gravel concession roads became four-lane arterial highways; the well gave way to the municipal water supply, and the septic tank to the sewer main. Where once there were corner stores and nondescript office buildings, suddenly there were shopping malls and office towers. There were schools and hospitals to be built; and all the while, the hardware and materials on which the boom relied were supplied by a constant expansion in the capacity of manufacturing industry.

Growth of the cement and concrete industries

This vast reshaping of cities and towns called for prodigious volumes of *concrete* which was–and remains–the most fundamental of construction materials; within that concrete, the key and irreplaceable binding agent is *cement*. The consumption of both cement and concrete is, therefore, closely associated with the prevailing level of construction activity. As that level moved steadily upward to an historical peak in the mid-seventies, so the capacities of the cement and concrete industries doubled in the thirty years following the War.

Declining economic growth rates

Throughout that prolonged construction boom it appeared that the level of construction activity– and hence the health of the cement and concrete industries–depended fundamentally on population growth, and on significant increases of real gross national product. As the seventies wore on, however, the continuation of historical economic growth rates became more wishful than probable. Declining population growth rates; the structural problems of Canadian and U.S. manufacturing industry; the certainty of higher real energy prices; entrenched inflation; all these factors–which likely are causally related to each other–argue that economic growth over the next several years may be modest at best. By itself, not the most encouraging of omens for the construction-related industries.

Fortunately, however, the last several years have seen the significant emergence of construction activity which relates not only to the creation of new infrastructure, but also to the renovation and modernization of existent (but outmoded) infrastructure.

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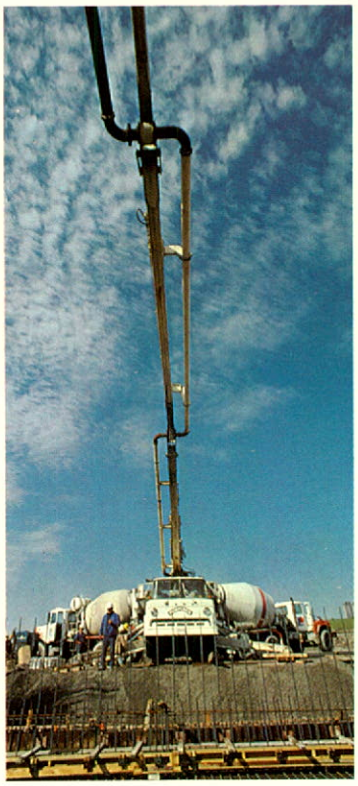

4


1, 2, 3 The ability to deliver custom mixes and more cost-efficient techniques for using ready-mixed concrete have helped the cement industry expand its share of major building and plant construction. Bucket, boom pump or direct pour are the principal methods used to deliver ready-mixed concrete from truck to construction forms.

4 The concrete worker's special skills are still applied in a few places by hand trowelling and rough screeding, but most of the finishing work is now done by machines like the power trowel shown above.

5 The twin pillars of the construction industry, concrete and steel, compete vigorously for exterior wall applications but combine to make the ideal foundation, concrete columns poured around steel reinforcing rods. ▶

A developed industrial infrastructure

It would be premature to envision any sudden economic resurgence for those regions in the continent's northeastern quadrant which are home to the traditional manufacturing industries. It is also less than realistic to understate the depression of regional construction activity in 1980. The fact remains, however, that the manufacturing centres of the older industrial regions are where they are because there also is the coal, the iron ore, the Great Lakes . . . and today, a population of 125 million, a vast pool of skilled labour, and an extremely developed industrial infrastructure. These are durable advantages which may render renewal and modernization of this infrastructure

increasingly attractive as compared with the creation of new equivalents in southern and western regions.

Restoration and renewal

Lake Ontario Cement Limited serves a market area comprising Ontario, Michigan and Western New York State. The total population of this area is about 23 million and, in general, the regional economies are mature, and based significantly on manufacturing industries. Contemporary construction within this market area is indicative of civic renewal, the modernization of manufacturing plant, commercial re-development and changing urban lifestyles.

The modernity of much of the *Metropolitan Toronto* region might seem to defy the need for restoration and redevelopment; and yet it takes no more than a stroll through downtown Toronto to see an array of major construction projects. Here, excavation is just beginning for a major office tower. Around the corner, a similar project is well under way. A short walk away, the splendour of the new Massey Hall is in the making. Close by, one of the city's most celebrated hotels is being restored. A few blocks away, a prestige condominium nears completion.

In downtown *Ottawa,* impressive re-development is matched by the promise of more to come. At the city's edge, the rapid growth of a "silicon valley" affirms the stature of the Canadian electronics industry.

In *Windsor* and *Oshawa*, construction of new automotive plants anticipates tomorrow's lighter, fuel-efficient models. Downtown renewal in *Detroit* is symbolized by the magnificent Renaissance Center; and in *Buffalo,* a new rapid transit system is key to redevelopment of the downtown area. In *Rochester,* extension of local expressways complements new plant construction. In the *steel cities of Ontario,* the construction of state-of-the-art new capacity reflects the vitality of the province's manufacturing industry.

The revitalizing of manufacturing industry

It is arguable that, across a broad front of North American manufacturing industry, the price has been paid for an earlier failure to invest in the most efficient and productive of modern technologies. This perception is reflected in the view of many economists that the driving force of the U.S.A. and Canadian economies in the early eighties will be capital investment and not–as in the later seventies–consumer spending. If these economists are right, the prospects for restoration and renewal in the older, industrial regions appear quite favourable for the next several years.

The recent and current construction projects illustrated on these pages testify to the long-haul resilience of the regional economies within the Company's market area, and to the adaptive technology of the modern concrete industry.

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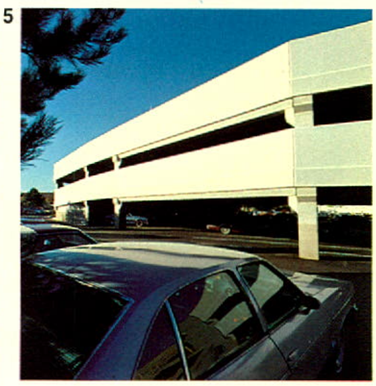
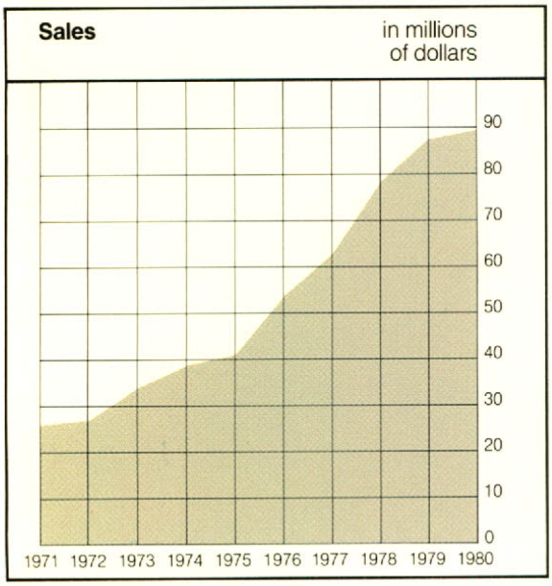
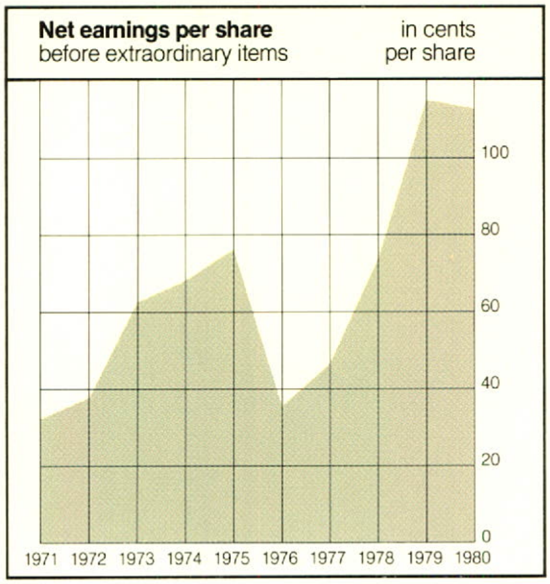


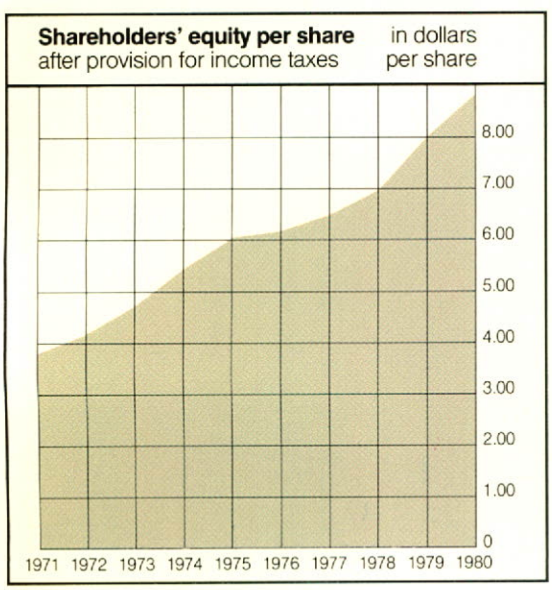
1, 2 The ultimate in the clean, strong, beautiful lines of concrete construction is typified by this poured concrete apartment building, finished with precast corners and precast facing panels (2) which are hoisted by crane and bolted into place on the main structure. This is one of four buildings in a planned six-building complex which dominates the skyline of Toronto's neighbouring city of Mississauga. To date, Premier has supplied more than 82,000 cubic metres of ready-mixed concrete for the project.

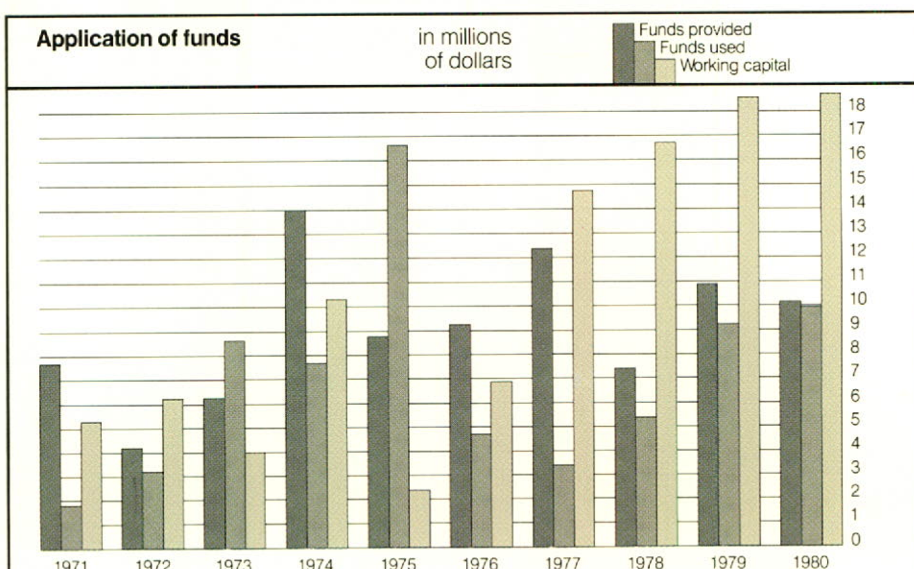
3, 4, 5 This parking garage at North York Hospital in Metropolitan Toronto demonstrates the advances which have been made in marrying the practical load-bearing qualities of poured concrete with the increased flexibility of pre-stressed modular beams and the beauty of precast finishing panels. Each of the exterior panels shown here (5) weighs between 30 and 50 tons and measures up to 65 feet long and 10 feet high.

Financial trends at a glance









Lake Ontario Cement Limited

Consolidated Financial Statements, Notes and Summaries

for the year ended
December 31, 1980

Consolidated balance sheet as at December 31

Assets	1980	1979
Current assets		
Cash and short-term deposits	$ —	$ 1,301,741
Accounts receivable	**15,624,644**	14,397,155
Inventories (note 2)	**21,844,441**	16,429,217
Prepaid expenses	**633,908**	553,157
	38,102,993	32,681,270
Fixed assets (note 3)	**92,987,123**	90,364,705
Less: Accumulated depreciation and depletion	**43,724,487**	41,100,133
	49,262,636	49,264,572
	$87,365,629	$81,945,842

(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, 1980 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 Company as at December 31, 1980 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 12, 1981

Coopers & Lybrand, *Chartered Accountants*

Liabilities	1980	1979
Current liabilities		
Bank indebtedness	**$ 4,144,246**	$ —
Accounts payable and accrued liabilities	**7,764,072**	9,176,783
Income taxes payable	**4,605,500**	2,060,591
Long-term debt due within one year (note 4)	**2,922,128**	2,940,485
	19,435,946	14,177,859
Long-term debt (note 4)	**15,273,697**	17,783,550
Minority interest in subsidiary company (note 10)	**—**	944,687
Deferred income taxes (note 5)	**10,467,245**	10,345,090
	45,176,888	43,251,186
Shareholders' equity		
Share capital (note 6)	**4,306,461**	4,306,461
Contributed surplus	**4,896,161**	4,896,161
	9,202,622	9,202,622
Retained earnings (notes 4 and 5)	**32,986,119**	29,492,034
	42,188,741	38,694,656
	$87,365,629	$81,945,842

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	**1980**	1979
Sales	**$89,346,673**	$88,317,149
Cost of sales	**69,992,455**	69,340,021
Gross profit	**19,354,218**	18,977,128
Expenses		
Selling, general and administrative	**8,148,224**	7,451,548
Loss (gain) on translation of foreign currency	**(117,546)**	87,670
Interest on long-term debt	**2,148,406**	2,299,170
Other interest expense	**843,466**	325,611
	11,022,550	10,163,999
Operating profit	**8,331,668**	8,813,129
Provision for income taxes	**3,475,000**	3,854,000
	4,856,668	4,959,129
Minority interest in net earnings of subsidiary company	**—**	15,667
Net earnings before extraordinary items	**4,856,668**	4,943,462
Extraordinary items (note 11)	**575,325**	950,000
Net earnings for the year	**$ 5,431,993**	$ 5,893,462
Net earnings per common share:		
Before extraordinary items	**$1.13**	$1.15
After extraordinary items	**$1.26**	$1.37

Consolidated statement of retained earnings

for the year ended December 31	**1980**	1979
Retained earnings—beginning of year	**$29,492,034**	$25,105,833
Net earnings for the year	**5,431,993**	5,893,462
	34,924,027	30,999,295
Dividends	**1,937,908**	1,507,261
Retained earnings—end of year	**$32,986,119**	$29,492,034

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

Consolidated statement of changes in financial position

for the year ended December 31	1980	1979
Source of working capital		
Net earnings before minority interest and extraordinary items	**$ 4,856,668**	$ 4,959,129
Depreciation, depletion and amortization	**4,091,867**	4,068,142
Deferred income taxes	**122,155**	298,960
Funds provided from current operations	**9,070,690**	9,326,231
Capital lease obligations assumed	**209,275**	312,413
Extraordinary items (note 11)	**575,325**	950,000
Other transactions	**303,775**	291,207
	10,159,065	10,879,851
Application of working capital		
Fixed asset additions	**4,211,393**	4,764,538
Long-term debt due within one year	**2,922,128**	2,940,485
Acquisition of minority interest (note 10)	**924,000**	—
Dividends	**1,937,908**	1,507,261
	9,995,429	9,212,284
Increase in working capital	**163,636**	1,667,567
Working capital—beginning of year	**18,503,411**	16,835,844
Working capital—end of year	**$18,667,047**	$18,503,411

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

Notes to consolidated financial statements

for the year ended December 31, 1980

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 historic 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%

During the year, the Company changed its policy of accounting for depreciation and as a result did not charge depreciation on certain equipment while it was subject to a total shutdown. This change does not have any material effect on the earnings for the year.

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

2. Inventories

Inventories consist of:

	1980	1979
Finished and semi-processed products	**$ 8,585,706**	$ 6,380,916
Raw materials and fuel supplies	**8,132,364**	5,891,935
Maintenance and repair parts	**5,126,371**	4,156,366
	$21,844,441	$16,429,217

3. Fixed assets

(a) Fixed assets consist of:

	1980			1979
	Cost	**Accumulated depreciation and depletion**	**Net**	Net
Owned:				
Land and land improvements	**$ 3,171,000**	**$ 680,163**	**$ 2,490,837**	$ 2,788,194
Mineral properties	**2,852,802**	**807,059**	**2,045,743**	1,779,070
Buildings and structures	**17,451,216**	**6,729,309**	**10,721,907**	10,340,361
Machinery and equipment	**57,986,840**	**28,193,542**	**29,793,298**	29,419,869
Vehicles and mobile equipment	**10,248,764**	**6,891,241**	**3,357,523**	4,084,685
Leased:				
Equipment	**252,422**	**73,623**	**178,799**	198,072
Vehicles	**1,024,079**	**349,550**	**674,529**	654,321
	$92,987,123	**$43,724,487**	**$49,262,636**	$49,264,572

(b) Included in the cost of fixed assets at December 31, 1980 are fully depreciated assets with an original cost of $12,017,023.

4. Long-term debt

Long-term debt consists of:

	1980			1979
	Due within one year	**Long-term portion**	**Total**	Total
9¾% debenture due 1994	**$ 860,000**	**$11,200,000**	**$12,060,000**	$12,920,000
10% mortgages due 1981 to 1982	**40,000**	**11,500**	**51,500**	91,500
9¾% notes due 1981	**34,930**	**—**	**34,930**	166,627
Promissory notes, with interest at U.S. prime rate plus 1% (but not less than 8% or greater than 9%) "A" note, due 1981 (U.S. $300,000)	**357,000**	**—**	**357,000**	1,421,750
"B" note, due 1981 to 1983 (U.S. $2,550,000)	**773,500**	**1,995,000**	**2,768,500**	2,677,500
Term bank loan, with interest at U.S. prime rate plus 1% (but not less than 8%) due 1981 to 1983 (U.S. $2,000,000)	**595,000**	**1,575,000**	**2,170,000**	2,682,500
Capital portion of lease obligations, with interest at rates from 8% to 14% due 1981 to 1986	**261,698**	**492,197**	**753,895**	764,158
	$ 2,922,128	**$15,273,697**	**$18,195,825**	$20,724,035

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:

1981	$2,660,430
1982	2,394,000
1983	2,907,500
1984	860,000
1985	860,000

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 Company 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, 1980 consolidated working capital and consolidated net tangible assets exceeded the required levels.

The "B" 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 $476,000.

5. Deferred income taxes

The total deferred income taxes to December 31, 1980 amount to $14,589,245, of which $4,122,000 is not recorded in the accounts. Until December 31, 1967, deferred income taxes were reported by note to the financial statements. On January 1, 1968, the Company changed its method and, from that date, has recorded subsequent deferred income taxes in the accounts.

6. Share capital

(a) On March 12, 1980, the Company was granted a certificate of continuance under the Canada Business Corporations Act. Coincidentally, the authorized capital was amended to provide for the issue of an unlimited number of common and preferred shares. At December 31, 1980, 4,306,461 common shares were issued and fully paid.

(b) Share purchase plan

Under the terms of the share purchase plan for key executives, authorized and unissued common shares of the Company up to, but not exceeding, 200,000 shares in the aggregate may be allotted and issued to key executives. Shares are issued for a subscription price payable by way of a down payment and instalment payments extending over a period of not more than seven years. The subscriber waives all voting rights until the shares are fully paid. Shares may be allotted and issued at a price representing a discount of not more than 15% from the market price at the time of allotment. As at December 31, 1980, 76,000 shares had been issued under the terms of this plan and were fully paid.

7. Lease commitments

Future minimum payments under capital and operating leases are as follows:

	Capital leases	Operating leases
1981	$332,000	$1,448,000
1982	291,000	166,000
1983	190,000	118,000
1984	58,000	97,000
1985	14,000	56,000
Subsequent	—	738,000
Total minimum lease payments	885,000	$2,623,000
Less: Amount representing interest	131,000	
Obligations under capital leases	$754,000	

Operating leases include vessel and property leases which expire at various times and may be expected to be renewed.

8. Pension plans

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

Based on the most recent actuarial reports, unfunded past service liabilities amounted to $2,938,000, as at December 31, 1980. This amount, of which approximately $528,000 is fully vested, is being expensed and funded over periods from 10 to 17 years.

The total charge against operations in 1980, with respect to past service liabilities, amounted to $371,000 including interest.

9. Segmented information

The Company 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 Company 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 Company'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 Company operates.

Geographic analysis for the year ended December 31	**1980**	1979
Sale of products to outside customers:		
Canada	**$ 50,692,374**	$ 48,278,607
United States	**38,654,299**	40,038,542
Inter-area sales by:		
Canada	**21,211,064**	22,397,592
United States	**2,250,434**	1,388,051
	112,808,171	112,102,792
Elimination of inter-area sales	**23,461,498**	23,785,643
Total sales per consolidated statement of earnings	**$ 89,346,673**	$ 88,317,149
Contributions to earnings from:		
Canadian operations	**$ 6,235,420**	$ 6,786,516
United States operations	**2,096,248**	2,010,946
	8,331,668	8,797,462
Less: Provision for income taxes	**3,475,000**	3,854,000
Net earnings before extraordinary items	**4,856,668**	$ 4,943,462
Identifiable assets analyzed by geographic area:		
Canada	**$ 71,900,862**	$ 67,736,899
United States	**14,933,387**	13,865,562
Corporate assets	**531,380**	343,381
Total assets per consolidated balance sheet	**$ 87,365,629**	$ 81,945,842

10. Acquisition of minority interest

On January 7, 1980 the Company acquired the outstanding minority interest of a subsidiary company for a cash consideration of $924,000. This subsidiary was amalgamated with Lake Ontario Cement Limited on March 28, 1980.

11. Extraordinary items

	1980	1979
Gain on sale of surplus land, net of taxes of $122,000	**$575,325**	
Settlement of claims for damages arising from expropriation and equipment failure, net of taxes of $400,000		$950,000

Ten year financial summary

Dollars in thousands, except amounts per share

	1980	1979	1978
Operating results			
Sales	**$89,346**	$88,317	$78,364
Cost of sales	**69,992**	69,340	64,186
Gross profit	**19,354**	18,977	14,178
Selling, general and administrative expenses	**8,148**	7,451	6,852
Loss (gain) on foreign exchange	**(117)**	88	(382)
Interest on long-term debt	**2,148**	2,299	2,277
Other interest	**843**	326	362
	11,022	10,164	9,109
Operating profit	**8,332**	8,813	5,069
Provision for income taxes	**3,475**	3,854	1,902
Net earnings before minority interest, income from investment and extraordinary items	**4,857**	4,959	3,167
Minority interest in net earnings of subsidiary company		(16)	(17)
Investment income on equity basis			
(Loss) gain on disposal of fixed assets			
Extraordinary items	**575**	950	
Net earnings for the year	**$ 5,432**	$ 5,893	$ 3,150
Balance Sheet			
Working capital	**$18,667**	$18,503	$16,836
Fixed assets—net	**49,263**	49,265	48,546
Long-term debt	**15,274**	17,784	20,245
Deferred income taxes (2)	**14,589**	14,467	14,168
Shareholders' equity (2)	**$38,067**	$34,573	$30,166
Other information			
Funds provided from current operations (1)	**$ 9,071**	$ 9,326	$ 7,116
Capital expenditures	**4,469**	5,128	3,132
Depreciation and depletion	**4,092**	4,056	3,937
Common share price range			
High	**7.50**	6.25	5.87
Low	**$ 5.00**	$ 4.85	$ 3.25
Number of common shareholders	**3,052**	3,237	3,598
Return on sales (1)	**5.4%**	5.6%	4.0%
Return on average shareholders' equity (1 & 2)	**13.3%**	15.3%	10.9%
Per common share			
Earnings (1)	**$ 1.13**	$ 1.15	$ 0.73
Funds provided from current operations (1)	**2.11**	2.17	1.65
Common dividends	**0.45**	0.35	0.20
Shareholders' equity (2)	**$ 8.84**	$ 8.03	$ 7.01

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

1977	1976	1975	1974	1973	1972	1971
$64,641	$54,845	$41,833	$39,398	$34,883	$27,338	$26,443
53,167	44,810	31,469	30,155	26,483	20,926	20,576
11,474	10,035	10,364	9,243	8,400	6,412	5,867
5,756	4,869	3,688	3,152	2,758	2,348	2,273
(262)	(116)					
2,023	1,615	1,553	1,361	1,089	1,081	776
637	1,001	(8)	(272)	35	17	211
8,154	7,369	5,233	4,241	3,882	3,446	3,260
3,320	2,666	5,131	5,002	4,518	2,966	2,607
1,262	1,126	2,045	2,230	1,818	1,440	1,292
2,058	1,540	3,086	2,772	2,700	1,526	1,315
(50)	(55)					
		128	226	213	274	109
		111		(188)		
			482			
$ 2,008	$ 1,485	$ 3,325	$ 3,480	$ 2,725	$ 1,800	$ 1,424
$14,821	$ 6,909	$ 2,393	$10,340	$ 3,966	$ 6,253	$ 5,283
49,126	48,817	48,207	35,604	31,877	27,375	26,712
21,338	15,239	15,698	15,822	10,363	11,070	10,955
14,168	13,146	11,842	9,502	7,702	6,582	6,492
$27,877	$26,730	$26,106	$23,426	$20,462	$18,077	$16,143
$ 7,258	$ 6,386	$ 7,770	$ 7,467	$ 6,230	$ 3,816	$ 3,601
1,848	2,325	15,434	6,724	7,103	2,774	1,428
4,024	3,688	2,769	2,669	2,293	2,105	2,040
3.60	4.20	3.85	4.40	4.90	4.30	3.20
$ 3.05	$ 3.05	$ 2.80	$ 2.30	$ 3.15	$ 2.70	$ 1.85
3,915	4,094	4,187	4,264	4,400	4,805	4,902
3.1%	2.7%	7.9%	8.8%	7.8%	6.6%	5.4%
7.4%	5.6%	13.4%	15.9%	14.1%	10.5%	9.2%
$ 0.47	$ 0.35	$ 0.77	$ 0.81	$ 0.63	$ 0.42	$ 0.34
1.69	1.48	1.81	1.74	1.45	0.89	0.85
0.20	0.20	0.15	0.12	0.10		
$ 6.48	$ 6.21	$ 6.07	$ 5.45	$ 4.76	$ 4.23	$ 3.82

Directors and corporate information

Directors

Rudolph P. Bratty, Q.C. - Toronto, Ontario
Senior Partner, Gambin, Bratty, Chiappetta, Morassutti, Caruso

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-President, Finance, Denison Mines Limited

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

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

Franklin L. Rittmueller - Frankenmuth, Michigan
President and Chief Executive Officer, Frankenmuth Bank and Trust Company 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

Auditors

Coopers & Lybrand, Toronto, Ontario

Transfer Agent and Registrar

Guaranty Trust Company of Canada, Toronto, Ontario

Stock Listing

Toronto Stock Exchange
Stock Symbol "LOP"

Lake Ontario Cement Limited
Company organizational information

The Cement Group

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

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
J. K. Carruthers, Manager of Transportation
W. F. Behan, General Credit Manager

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

Sales Office:
2 Carlton Street, Toronto, Ontario

Toronto Distribution Depot:
312 Cherry Street, Toronto, Ontario
(416) 461-3579

Windsor Distribution Depot:
210 Detroit Street, Windsor, Ontario
(519) 253-4651

Coniston (Sudbury) Distribution Depot:
(705) 692-4727

The Premier Group

2 Carlton Street, Toronto, Ontario

K. Bruce, President
R. H. Grimm, Executive Vice-President - Marketing
S. W. Knott, Vice-President - Operations

Toronto and Hamilton area:
1625 Shawson Drive, Mississauga, Ontario
L4W 1T7 (416) 678-9540
349 Kenora Avenue, Hamilton, Ontario
L8E 2W3 (416) 561-4994
A. S. Frayne, Sales Manager - Concrete
P. M. Thomas, Sales Manager - Unit Masonry

Ottawa area:
1815 Bantree Street, Ottawa, Ontario
K1B 4L6 (613) 741-1212
T. M. Burns, Area Manager

Windsor area:
5115 Rhodes Drive, Windsor, Ontario
N8N 2M1 (519) 948-5221
R. K. Post, Area Manager

Aggregate Division

1625 Shawson Drive, Mississauga, Ontario
L4W 1T7 (416) 678-9540
C. C. Husband, Manager

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 10th, 1981 at 11:00 a.m.

Subsidiary Companies

Aetna Cement Corporation

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

J. D. Fowler, Chairman of the Board
I. M. MacLachlan, 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

Rochester Portland Cement Corp.

361 Boxart Street, Rochester, New York
14612 (716) 663-7272

Division:
Mohawk Valley Cement Company

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

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