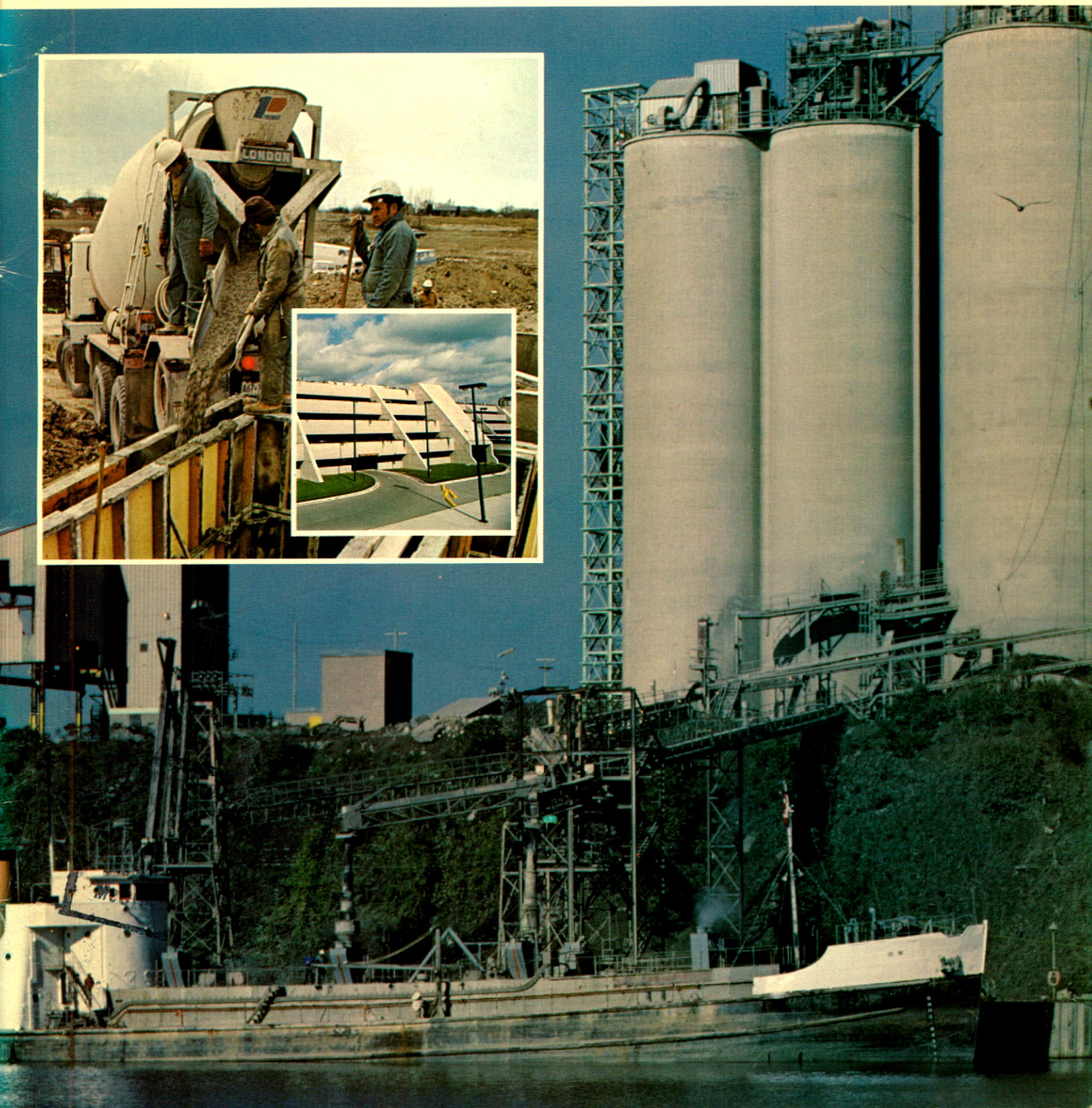
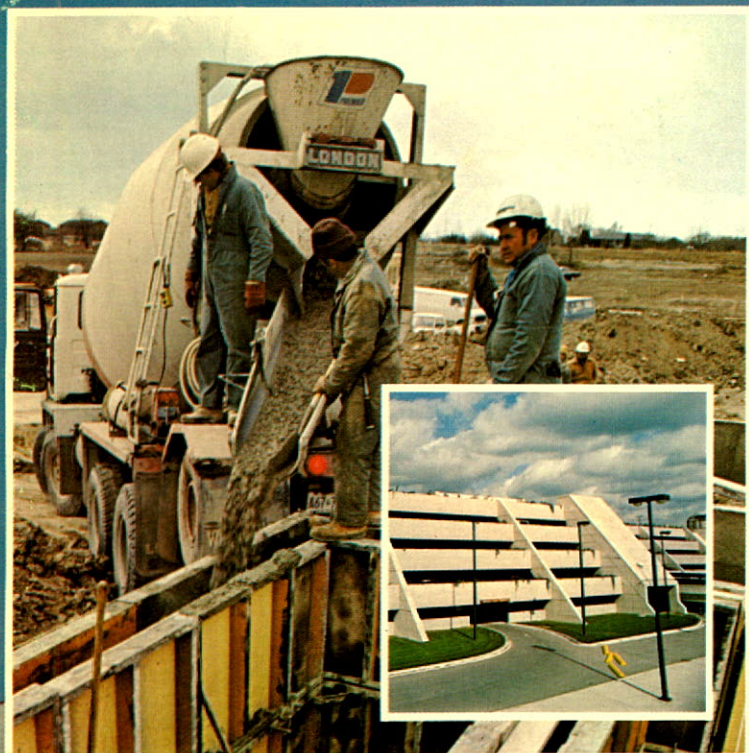




Lake Ontario Cement Limited

and Subsidiary Companies

Annual Report 1977



Lake Ontario Cement Limited

Directors

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

Charles F. W. Burns – Toronto, Ontario
Honorary Chairman, Burns Fry Limited

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

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

Basil H. Hall – Toronto, Ontario
Municipal Consultant

Roderick M. MacDougall –
Boston, Massachusetts
President,
New England Merchants National Bank

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

Stephen B. Roman – Toronto, Ontario
Chairman and Chief Executive Officer,
Denison Mines Limited

Robert A. Smith, Q.C. – Toronto, Ontario
Partner, Smith, Lyons, Torrance,
Stevenson & Mayer

Officers

Stephen B. Roman, Chairman of the Board

W. M. Bateman, President

J. D. Fowler, Executive Vice-President

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

B. T. Price, Vice-President – Operations

R. P. Sutherland, Treasurer

C. A. Gibbs, Assistant Treasurer

Head Office

2 Carlton Street, Toronto, Ontario

Subsidiaries

Aetna Cement Corporation,
Essexville, Michigan

Primeau Argo Block Co. Limited,
Rexdale, Ontario

Rochester Portland Cement Corp.,
Rochester, New York

Ryan Builders Supplies (Windsor) Limited,
Windsor, Ontario

Auditors

Coopers & Lybrand, Toronto, Ontario

Transfer Agent and Registrar (Canada)

Guaranty Trust Company of Canada,
Toronto, Ontario

Transfer Agent (U.S.A.)

First National City Bank, New York, N.Y.

Registrar (U.S.A.)

Marine Midland Bank, New York, N.Y.

Summary of contents

Market expansion Cover

The MV Loc Bay is the newest addition to the fleet of ships that form part of the Company's transportation system. The distribution network is now expanded considerably with the addition of Aetna Cement Corporation and its market area covering all of Michigan. Distribution of cement and concrete, the development of the Aetna operations, and uses of cement and concrete in the community – in this instance, a residential foundation and a multi-level parking garage – are reviewed in special sections of this Report.

Financial highlights Page 1

Report to shareholders Page 3

Cement and concrete in the community Page 6

Cement and concrete are used in more different applications and in greater quantities than any other building material. The market is growing for concrete brick and paving block.

Distribution in Canada and the United States Page 8

Lake Ontario Cement's distribution network, using a wide range of transportation equipment, is the secret of getting thousands of tons of cement and ready-mixed concrete promptly to customers in central Canada and the northern United States.

Origins of Aetna Cement Page 10

Portland cement from Aetna was used to build the first concrete paved road in Michigan. The Company is now a wholly owned subsidiary of Lake Ontario Cement Limited.

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Statement of changes in financial position 17
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Ten year financial summary Page 22

Financial trends at a glance Page 24

Corporate information Cover

Financial highlights

Year ended December 31

1977

1976

Operating results

Sales	\$64,641,278	\$54,845,051
Net earnings	2,007,461	1,484,745
Per common share	46.7¢	34.5¢
Dividends paid	860,492	860,492
Per common share	20.0¢	20.0¢
Funds generated from operations	7,117,495	6,365,774
Expenditures for fixed assets	1,848,384	2,324,672
Depreciation and depletion	4,118,461	3,687,817

Financial position at year end

Current assets	\$25,869,454	\$21,512,276
Current liabilities	10,891,713	14,569,595
Working capital	14,977,741	6,942,681
Long-term debt (including amounts due within one year)	22,482,230	16,595,954
Shareholders' equity	31,886,399	30,711,675
Per common share (after full provision for deferred income taxes)	6.48	6.21

Quarterly sales and net earnings

(dollars in thousands except per share in cents)

	Sales		Net earnings or (loss)		Net earnings or (loss) per share	
	1977	1976	1977	1976	1977	1976
1st quarter	\$ 5,816	\$ 6,159	\$(1,145)	\$ (838)	(26.6)¢	(19.5)¢
2nd quarter	20,254	17,652	1,237	1,338	28.8	30.5
3rd quarter	21,720	17,450	1,405	748	32.7	17.4
4th quarter	16,851	13,584	511	237	11.8	6.1
	\$64,641	\$54,845	\$2,008	\$1,485	46.7¢	34.5¢

The Aetna Cement Corporation plant is located at Essexville, Michigan, 90 miles north of Detroit. Ships carrying clinker from the Picton, Ontario, plant have a short run up the Saginaw River from Lake Huron.



Report to shareholders

On behalf of the Board of Directors, I am pleased to present the Annual Report of the Company for the year ended December 31, 1977.

Financial results

Consolidated sales for the year reached \$64,641,278, up 17.9% from the 1976 level of \$54,845,051. Earnings were higher at \$2,007,461 (46.7¢ per share) when compared to \$1,484,745 (34.5¢ per share) for the previous year. Both sales and earnings for 1977 include the results of Aetna Cement Corporation after April 15, 1977, the date this subsidiary of the Company purchased a cement grinding business in Michigan. The sales improvement resulted from cement sales by Aetna Cement Corporation after that date, as well as from increased selling prices due to inflationary effects. Total shipments for other product lines and other divisions were roughly the same as for the previous year. Cement shipments in the Ontario and New York markets were up slightly while the volume of ready-mixed concrete and aggregates in Ontario was down.

With the dollar volume of the Company's overall product shipments advancing and with net earnings increasing over the 1976 level, management believes that the Company is on an upward trend of growth and profitability. The principal contributing factor to increased earnings was the elimination of the mechanical problems that plagued the new kiln system in 1976. Of additional benefit was the discount on the Canadian dollar. Although the Company imports substantial quantities of coal for its manufacturing process, it is a net exporter and the favourable rate of exchange improved profitability.

Factors adversely affecting the Company's results for the year included the continuing flat construction market in western New York State which is attributable to the poor local economic climate. The intense pricing competition of previous years continued in the concrete industry in Ontario, particularly in the Toronto and Hamilton areas which are the Company's principal ready-mixed concrete markets. There was also a continuing trend of lower construction volume in Ontario, particularly in Toronto where metropolitan growth has been stifled by both political decisions and high mortgage rates. In addition, the violent winter storms of January and February shut down construction along with many of the plants of the Company's customers and curtailed production at Picton. The negative impact of poor weather continued with the heavy snow storms occurring at the beginning of December further reducing shipment volumes.

Acquisition

On April 15, 1977, Aetna Cement Corporation, a newly formed subsidiary of Lake Ontario Cement Limited, purchased the property, plant, equipment and current assets of a cement grinding business located in Essexville, Michigan. The purchase price was approximately \$6.4 million and was financed through the issuance of bank term debt and the issuance of medium term notes to the former owner. Previously the Company had a contract for the supply of clinker to this plant and the acquisition assures continuing high utilization of Picton manufacturing capacity.

It is intended that clinker will be manufactured in Picton, shipped by large self-unloading vessels to Essexville, finished into cement, stored in large silos on site and then shipped direct to markets in central Michigan.

Management believes this acquisition to be good strategy for the Company since it adds a substantial volume of cement sales in a third market area and contributes to the stability of earnings through diversification into a market area which is not in phase with Ontario. The market

itself is attractive and includes the cities of Bay City, Midland, Saginaw, Lansing and Flint, Michigan.

The plant is located beside the Saginaw River in Essexville, Michigan and is about one mile from Saginaw Bay on Lake Huron. This plant fits into the overall Lake Ontario Cement strategy of connecting plants and depots using mainly waterborne transportation.

The plant and personnel of this newly acquired business integrated smoothly with Lake Ontario Cement operations and nearly all of the experienced staff elected to continue with the Company.

Cement Division

As indicated earlier, the significant mechanical problems associated in one particular section of the new kiln system which adversely affected Picton operations in 1976 have been remedied. The Company is improving other related systems and while results to date have been satisfactory, better performance is expected in 1978. This expansion in terms of a larger size preheater kiln was most timely. Natural gas used for fuel which cost 39¢ per thousand cubic feet in 1972 and 50¢ in 1973, cost \$1.71 in 1977 and is expected to be \$2.10 in 1978. This kiln is intended to reduce fuel consumption by one third and can use either gas or coal or a combination of both. Because of the rapid escalation in gas costs, coal is becoming economically preferable as fuel.

The Picton cement plant is the largest taxpayer in Sophiasburg Township and Prince Edward County. Municipal taxes paid in 1977 alone amounted to \$318,541 and Company personnel at all levels participate in the social fabric of the community. The Company's quarry property was recently rezoned from agricultural to extractive in accordance with new development plans for the County and Township. Local restrictions on quarry operations exceed provincial requirements under the Pits and Quarries Control Act.

Concrete Products Division

The Concrete Products Division produces ready-mixed concrete in seven strategically located plants in Ontario – from Oshawa through Toronto to Hamilton as well as at Windsor and Ottawa. Additionally, this Division has a concrete block manufacturing plant in Windsor and a sand and gravel operation near Alton.

Concrete production in 1977 was down from previous levels for a number of reasons. Construction in Ottawa was adversely affected by the Federal Government's policy of decentralization which had the effect of cancelling or postponing a number of projects, some of them already under way. It is reported that as many as 15,000 Federal workers will leave the nation's capital.

In the Toronto/Hamilton area the construction industry, particularly in the housing field, continued in a depressed state with the consequent lack of available volume and abnormally low selling prices. It is estimated that the volume of concrete sold in Metropolitan Toronto in 1977 was only two thirds of that sold in 1973.

Several new gravel properties were purchased by the Company principally for its own use. Following a lengthy hearing of the Ontario Municipal Board in 1976 and a subsequent appeal to Cabinet, rezoning from agricultural to extractive was approved for one property and the Company hopes to have it in production in another year.

The lengthy legal process to which most industries, particularly housing, development, and extractive, are subject only serves to delay and increase the cost of constructive growth – an unproductive process which society can ill afford.

Primeau Argo Block Co. Limited

This 72.5% owned company is a major concrete block producer operating three manufacturing plants in the Metropolitan Toronto area. Sales of block over the past several years have not grown, generally because of changes in the construction of basements for housing. Concrete block walls in subdivisions have generally been replaced by solid concrete. However, the company continues as a very large supplier in the industrial, commercial and apartment markets. The company has diversified into the production of concrete brick, a product which requires less fuel to manufacture than clay brick and which has found great favour in the housing field in the United States. It is hoped that the next few years will see growth of the demand for this product in Ontario also.

Capital expenditures

In 1977 Lake Ontario Cement spent \$1,848,384 on property, plant and equipment additions, excluding Essexville. These expenditures were made primarily for modernization and replacement of present equipment. In addition, the Company spent \$2.7 million for the fixed assets involved in the acquisition of the cement grinding business at Essexville, Michigan. The capital additions in 1977 compare to \$2,324,672 spent in 1976 and \$15,434,442 in 1975.

Capital expenditures in the forthcoming year are expected to exceed three million dollars with a major amount going toward pollution control equipment. About \$6,700,000 has been spent in the last four years on pollution control equipment.

Financial position

The Company's financial position strengthened during the year with working capital at the end of 1977 being \$14,977,741, compared to \$6,942,681 at the end of 1976. The operating bank loan was reduced to approximately four million dollars at year end and it is expected that the loan will be further reduced and working capital improved during 1978.

While additional debt was incurred in acquiring the cement grinding business in Michigan, the overall debt structure of the Company and its strong working capital position make further growth a reasonable prospect.

Outlook

In Canada the Company markets both Portland and masonry cements in the Province of Ontario, excluding the north-west portion but including the greater Ottawa area and Hull. The Canadian market is serviced by storage depots at Picton, Toronto, Windsor and Ottawa. The outlook for the Ontario construction market is not particularly promising. The total consumption of cement in the Province has dropped from the high level of 1973 and growth has been non-existent since 1975. Any realistic view of

the short term outlook for the industry must anticipate a continuing weak construction market in Ontario because of the continuing anti-inflation controls and generally unstable economic conditions. Cement in particular will show little if any growth for 1978.

As for Concrete Products, no significant change in market activity is expected in 1978 nor is any change expected in the distressed price levels for ready-mixed concrete.

In New York State, where the Company has operated since its inception in 1958, cement is shipped to upper New York State and to part of northern Pennsylvania. These areas are presently served by two storage depots located at Rochester and Rome, New York. Cement consumption in the region has increased slightly from last year's levels. While competition has been strong, some improvement is anticipated in sales volume reflecting the apparent strengthening of the U.S. economy.

Aetna Cement Corporation markets cement in the State of Michigan, principally in the central part of the State. Total cement consumption in Michigan is forecast to increase and continuing good results are expected from this new operation in 1978.

The Board of Directors wishes to express its thanks to the employees of the Company for their contribution during the year and to its customers for their continuing support.

On behalf of the Board of Directors,



W. M. Bateman
President

January 12, 1978



William M. Bateman,
President



Stephen B. Roman,
Chairman of the Board

How cement and concrete are used in the community



Uses of concrete and cement are apparent almost everywhere you look in the community. They are used in more different applications and in greater quantities than any other building material.

1 Miles of concrete pipe are laid every year—below ground and out of sight. Seen here are sections of prefabricated pipe, catch basins and manholes to serve a housing subdivision. Easy to construct, maintenance-free and durable, they will probably outlast the housing that they serve. Concrete pipe is used primarily for water supply systems, storm sewers and sanitary sewers.

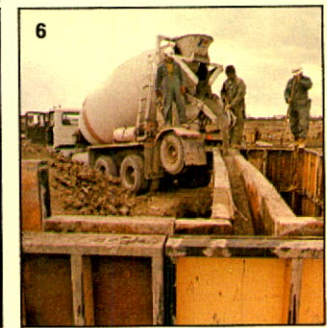
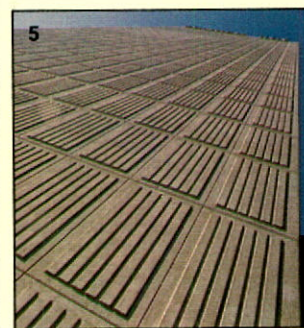
2 The versatility of concrete makes it an ideal and naturally preferred building material for sports complexes. Concrete construction is particularly applicable for large open areas where columns and other supports must be kept to a minimum. This is the expanded Canadian National Exhibition stadium, home of the Toronto Blue Jays ball team.

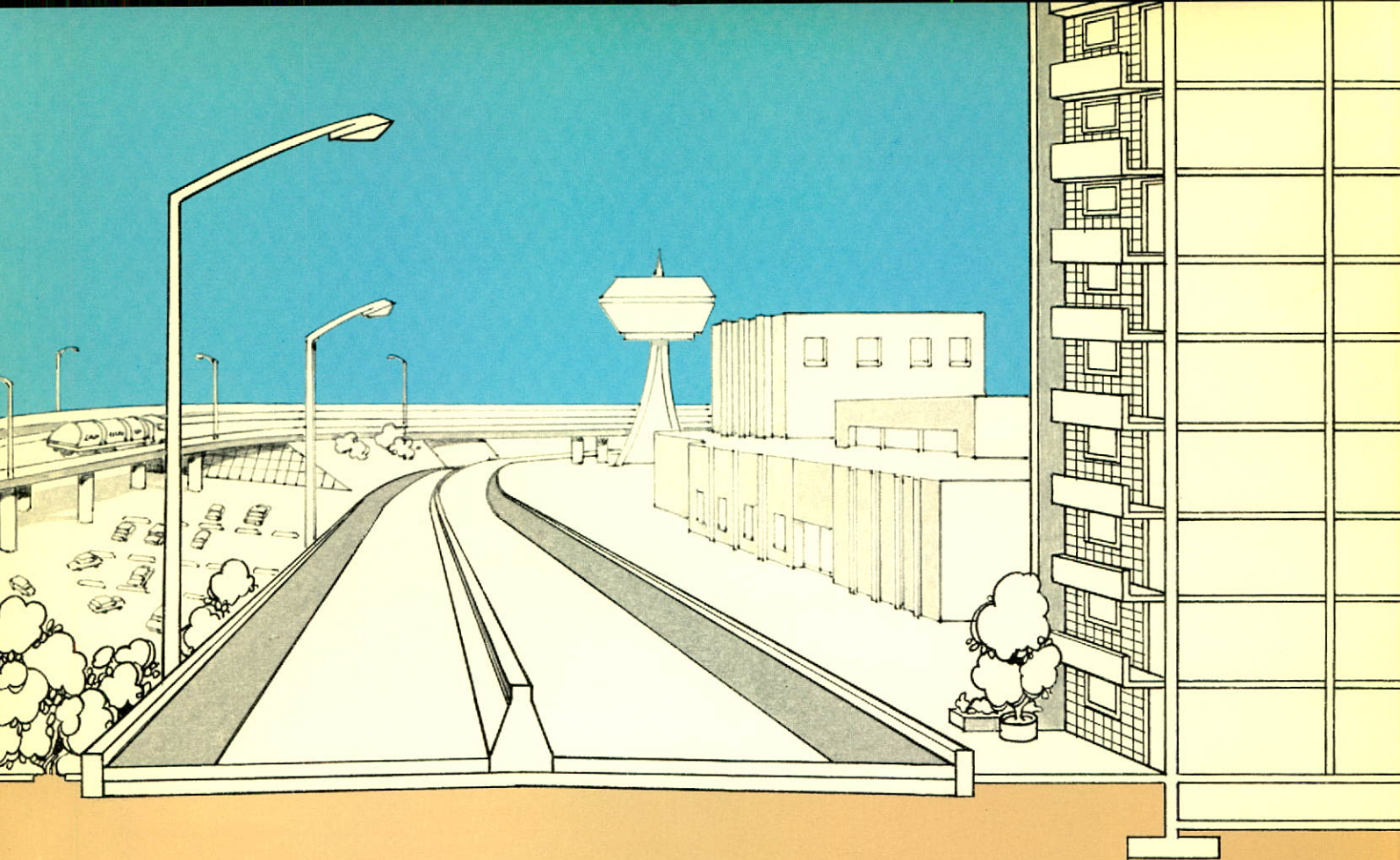
3 This concrete brick from Primeau Argo is a low energy material. Available in a choice of size, texture and colour, it is enjoying increased market acceptance. An antiqued texture, together with a combination of colours in each single brick, gives this new Willowdale house a softer appearance than traditional masonry houses.

4 The market for concrete paving blocks is growing and they can be seen increasingly in shopping malls and private driveways. They are available in a variety of designs and colours for easy matching with a variety of architectural effects. They are easy to install and stand up to severe weathering and heavy traffic.

5 These precast concrete panels can be readily manufactured and erected year round. They are produced in a variety of designs which permit accurate and uniform effects, as in the continuous fluting seen here on a Toronto hotel.

6 Ready-mixed concrete unloads from a Premier Concrete Products truck. Home builders prefer concrete foundations and basements not only because they are economical, but because they can be readily changed to suit various house shapes and heights. They are also durable.





7 One of the most severe applications of concrete is in parking garages, where it is the preferred material. Concrete is the only material that stands up to severe temperature changes of the Canadian climate, together with the effects of highway salt from parked vehicles. This garage at Toronto International Airport consists of an exterior that is partly cast in place and partly precast. The deck is of double-T spans of prestressed concrete as used in bridge construction. The pleasantly sculptured exterior demonstrates another advantage of concrete in construction.

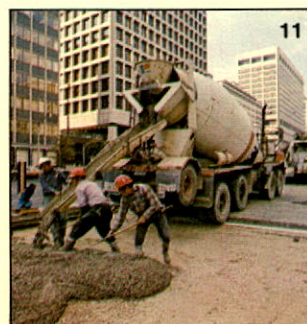
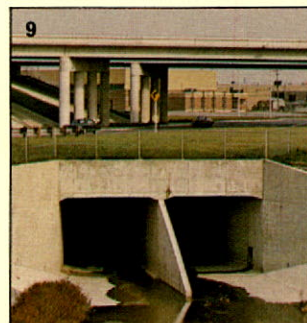
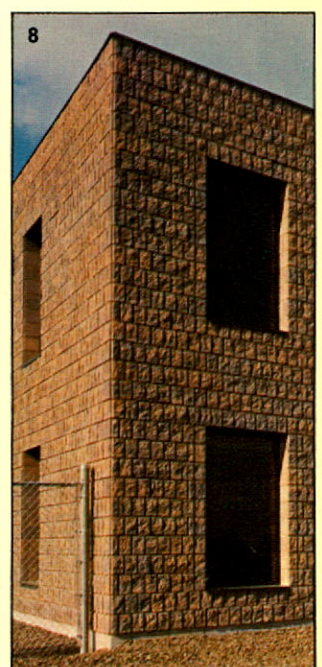
8 Decorative concrete block forms a complete and economical wall structure for warehouses and other commercial/industrial-type buildings. Available in a range of textures, colours or plain, to suit the application, masonry walls are maintenance free and offer an attractive, lasting appearance.

9 Concrete is the only economical construction material for large drainage culverts such as this one, designed to carry large quantities of excess rainfall run-off. This drainage culvert is cast in place.

10 Concrete is the preferred building material of apartment builders, for both economy and speed of construction. At this construction site being served by a Premier truck, concrete makes up the exterior walls and the structural frame of a high-rise apartment block.

11 Concrete paving for parking areas and traffic thoroughfares is light in colour, a safety factor particularly for night driving, and durable under very heavy traffic conditions.

12 High speed expressways use large quantities of concrete, for bridge decks and traffic pavements. Bridge deck barriers like shown can be designed for both appearance and safety considerations.



Distribution in Canada and the United States

Legend

-  Cement manufacturing plant
-  Ready-mix operations
-  Concrete products plants
-  Cement distribution depots
-  Bulk cement carriers
-  Aggregate operations

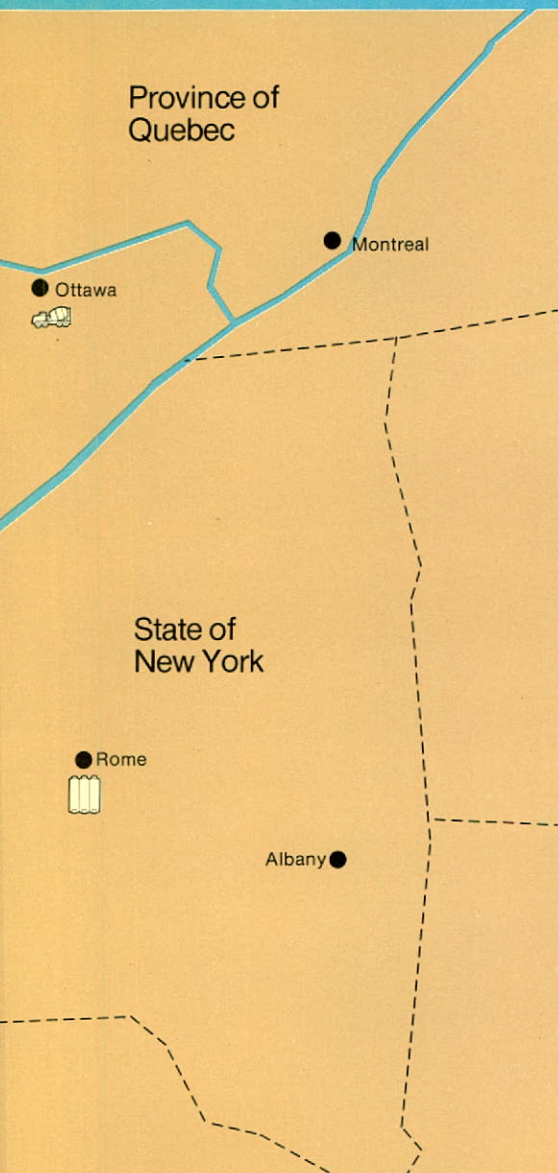


The distribution system of Lake Ontario Cement Limited is geared to move mountainous volumes.

Over a year the Company transports enormous quantities of cement, ready-mixed concrete, clinker and aggregates. In all seasons, shipments move to customers and Company terminals from Central New York to Western Michigan, and from Southwestern Ontario to the Province of Quebec.

In terms of capability – in trucks, rail cars, lake ships, silos, conveyor systems and loading and unloading equipment – Lake Ontario Cement is as much a transportation company as it is a cement manufacturer. For example, more than 1,400 railroad cars a year are loaded at the Picton plant. Some 450 carloads a year roll to Ottawa alone.

During the lake navigation season, generally from the end of March to mid-December, three ships provide almost continuous service to the terminals at Toronto and Windsor in Canada and to Rochester, Rome and Ithaca in New York State. Bulk carriers haul 16 or more shiploads of clinker to the plant at Essexville, Michigan for further processing into cement.



Highway trucks carry cement from the plants and terminals to customers not served directly by rail. Some terminals can be served either by ship or by rail. In the case of Windsor the terminal has no rail facility and because both cement and clinker can cross the border duty-free, the alternate method is by truck from Essexville.

1 Highway trucks like these leaving the Essexville plant operate across the State of Michigan. They also serve the Company's terminal at Windsor, Ontario.

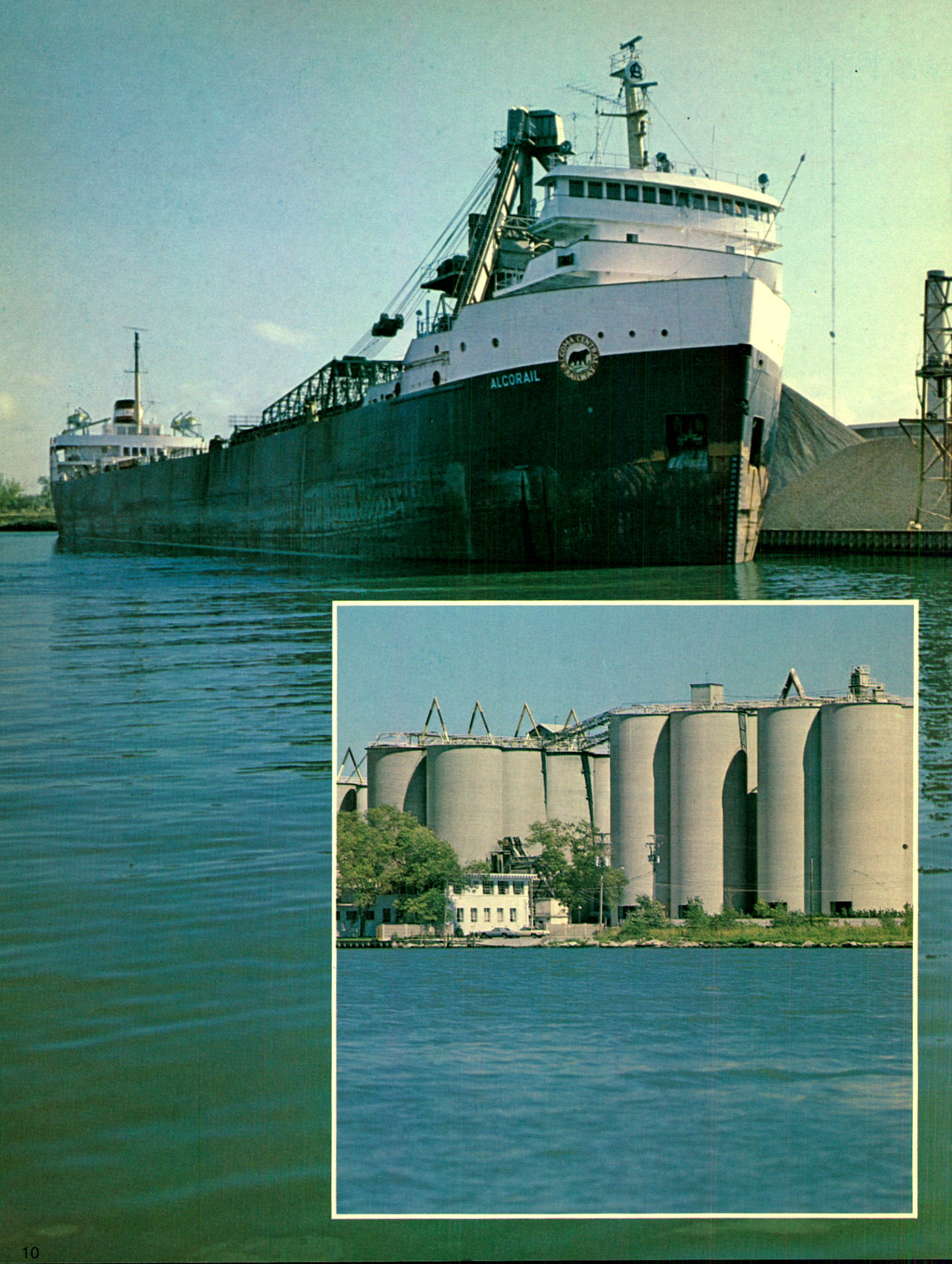
2 New in 1977 to full-time service for Lake Ontario Cement, the MV Loc Bay makes a return trip by lake and from Picton to the Rochester, New York, terminal every 32 hours. The Loc Bay has twice the capacity of the vessel she replaces, the MV Peerless.

3 Day or night loading at the deepwater dock adjoining the Picton plant begins as soon as a ship arrives alongside. Clinker is loaded at a rate of 2,500 tons per hour, cement at 800-900 tons per hour.

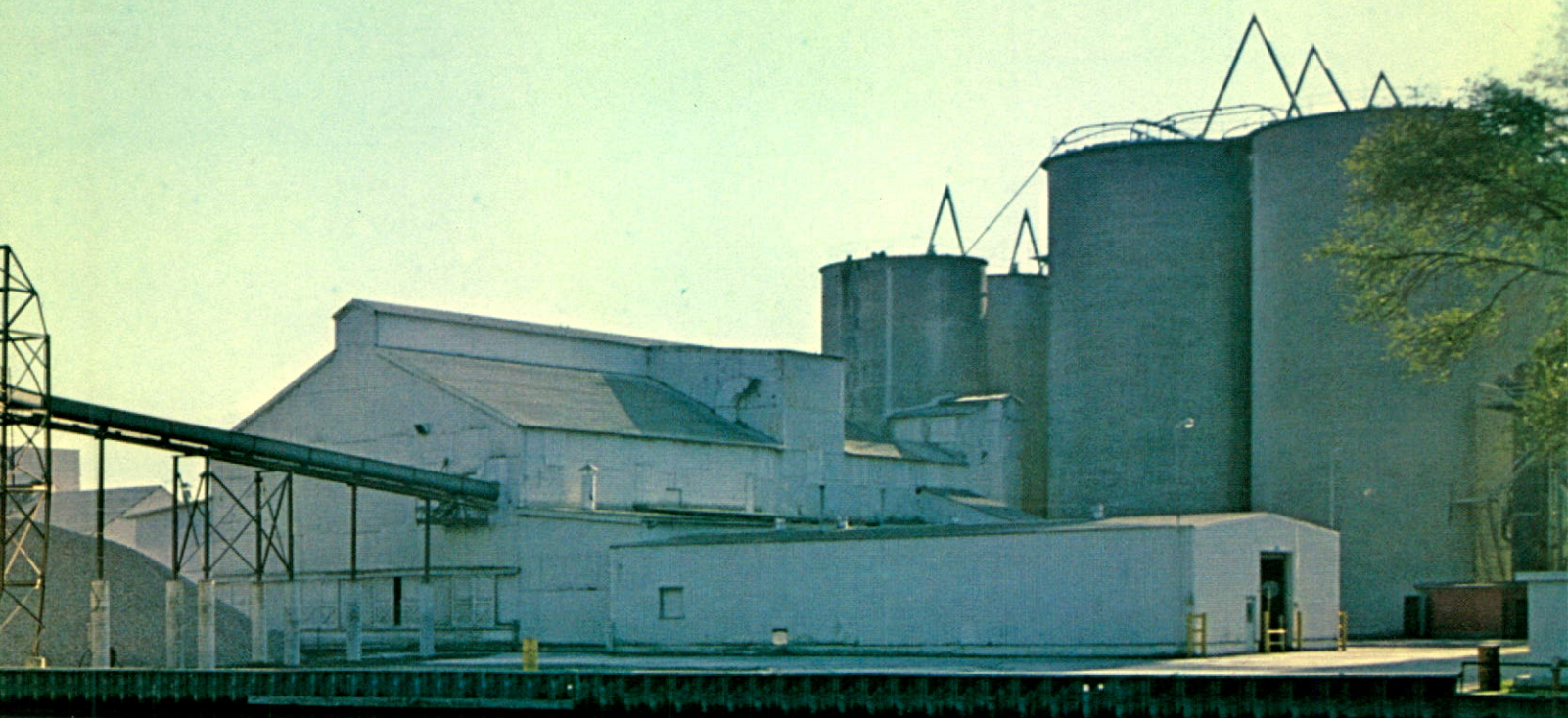
4 Highway trucks serve many customers as well as the Company's own ready-mixed concrete operations and concrete products plants. Vehicles load at marine and rail terminals as well as at the Picton plant, seen here.

5 The Picton plant loaded more than 1,400 rail cars of cement in 1977, taking advantage of the favourable freight rates available to large shippers. Railroad shipments increase when winter weather prevents lake shipping movements.

6 Cement is bagged at Picton, mainly for sale by building supply dealers. Growing numbers of home handymen are familiar with the Lake Ontario Cement symbol on bags of portland and masonry cement.



Aetna origins date from 1898



The origins of Lake Ontario Cement's newly-acquired plant at Essexville, Michigan, began with the organizing of the Detroit Cement Company in 1898. This company started producing cement from a plant at Fenton, Michigan in 1902. Seven years later it was reorganized as the Aetna Portland Cement Company and has continued as Aetna ever since.

Operating as a wet process plant, the Fenton plant obtained lime from the low lying marl lake deposits in the area. Clay was delivered by rail. Clinker burning was in eight 6' x 60' rotary kilns until 1916 when these were replaced by two 10' x 175' rotary kilns.

Portland cement from this plant was used to build the first concrete paved road in Michigan.

As the marl became worked out, operations were gradually phased out and by 1942 all production was concentrated at the Essexville plant, some 90 miles north of Detroit.

This plant started operations in August 1923 with a single 10' x 175' wet process kiln. Three more 10' x 175' kilns were added, in 1927, 1947 and 1954. A fifth 11' x 400' kiln went on line in 1956.

Crushed limestone and clay obtained from various sources over the years were delivered by ship and rail.

As the demand for cement increased over the years, the Essexville plant was expanded. Cement storage silos were added bringing the total to 24 by 1956. These now provide a combined capacity of 81,000 tons storage.

The operation of some of the kilns, however, became less economical with time, and all but the fifth and largest kiln were closed down by December 1975. The cement grinding mills continued to operate efficiently and the plant supplemented its single kiln production by purchasing clinker (semi-finished cement) from Lake Ontario Cement at Picton with the opening of the lake shipping season in the spring of 1976.

The Saginaw River beside the plant property is deep-dredged to accommodate the large 600-700 foot self-unloading lake freighters which carry the clinker. Cement is shipped mostly in bulk highway trucks equipped with pneumatic pumping equipment to service customer bins. Packaged cement is handled on pallets.

The Aetna Portland Cement Company was purchased by Martin Marietta Corporation in 1962. Lake Ontario Cement acquired the business from Martin Marietta in April 1977, and Aetna Cement Corporation is now a wholly-owned subsidiary of Lake Ontario Cement Limited. At the present time, all clinker for the Essexville plant is supplied from Picton.



From the sheltered dock at the Picton plant, three ships provide almost continuous service to Company terminals in Ontario and New York State during the navigation season. Larger bulk carriers transport the clinker to Essexville, Michigan.



Lake Ontario Cement Limited
and Subsidiary Companies

**Consolidated Financial Statements,
Notes and Summaries**
for the year ended December 31, 1977

Lake Ontario Cement Limited

Consolidated balance sheet as at December 31

Assets	1977	1976
Current assets		
Cash	\$ 677,188	\$ 378,262
Accounts receivable	11,229,546	9,822,437
Amount due on settlement of legal action	—	900,000
Inventories (notes 1(c) and 2)	13,630,991	10,096,963
Prepaid expenses	331,729	314,614
	25,869,454	21,512,276
Fixed assets—at cost (notes 1(d) and 3)	83,704,241	79,783,167
Less: Accumulated depreciation and depletion	34,578,531	30,965,915
	49,125,710	48,817,252
Unamortized debenture expense (note 1(e))	103,875	117,787
	\$75,099,039	\$70,447,315

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, 1977 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, 1977 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, 1978

Coopers & Lybrand, Chartered Accountants

Liabilities	1977	1976
Current liabilities		
Bank indebtedness	\$ 4,107,243	\$ 8,000,000
Accounts payable and accrued liabilities	5,419,385	5,212,372
Income taxes	220,720	—
Long-term debt due within one year (note 4)	1,144,365	1,357,223
	10,891,713	14,569,595
Long-term debt (note 4)	21,337,865	15,238,731
Minority interest in subsidiary company	936,932	903,334
Deferred income taxes (notes 1(f) and 5)	10,046,130	9,023,980
	43,212,640	39,735,640
Shareholders' equity		
Capital stock (note 6)		
Authorized—5,000,000 common shares of the par value of \$1 each		
Issued—4,302,461 shares	4,302,461	4,302,461
Contributed surplus	4,880,161	4,880,161
	9,182,622	9,182,622
Less: Amounts due under the Share Purchase Plan (note 6)	112,638	140,393
	9,069,984	9,042,229
Retained earnings (notes 4 and 5)	22,816,415	21,669,446
	31,886,399	30,711,675
	\$75,099,039	\$70,447,315

Signed on behalf of the Board of Directors

W. M. Bateman, Director

E. B. McConkey, Director

Lake Ontario Cement Limited

Consolidated statement of earnings

for the year ended December 31

	1977	1976
Sales	\$64,641,278	\$54,845,051
Cost of sales	53,167,269	44,810,030
Gross profit	11,474,009	10,035,021
Expenses		
Selling, general and administrative	5,755,765	4,869,212
Gain on foreign exchange	(261,740)	(116,414)
Interest (note 7)	2,660,425	2,616,067
	8,154,450	7,368,865
Operating profit	3,319,559	2,666,156
Provision for income taxes (notes 1(f) and 5)	1,262,000	1,126,000
Net earnings before minority interest	2,057,559	1,540,156
Minority interest in net earnings of subsidiary company	50,098	55,411
Net earnings for the year	\$ 2,007,461	\$ 1,484,745
Net earnings per common share	46.7¢	34.5¢

Consolidated statement of retained earnings

for the year ended December 31

	1977	1976
Retained earnings—beginning of year	\$21,669,446	\$21,045,193
Net earnings for the year	2,007,461	1,484,745
	23,676,907	22,529,938
Dividends	860,492	860,492
Retained earnings—end of year	\$22,816,415	\$21,669,446

Lake Ontario Cement Limited

Consolidated statement of changes in financial position

for the year ended December 31

1977

1976

Source of working capital

Net earnings before minority interest	\$ 2,057,559	\$ 1,540,156
Depreciation, depletion and other items	4,037,786	3,666,618
Deferred income taxes	1,022,150	1,159,000
Funds provided from current operations	7,117,495	6,365,774
Amount due on settlement of legal action	—	900,000
Issue of 10% mortgage	103,500	85,000
Working capital on acquisition of cement grinding business (note 8)	4,462,500	—
Net working capital on consolidation of newly acquired subsidiary	—	1,442,982
Other transactions	11,254	185,307
	11,694,749	8,979,063

Application of working capital

Fixed asset additions	1,654,832	2,235,768
Long-term debt due within one year	1,144,365	1,333,354
Dividends	860,492	860,492
	3,659,689	4,429,614
Increase in working capital	8,035,060	4,549,449
Working capital—beginning of year	6,942,681	2,393,232
Working capital—end of year	\$14,977,741	\$ 6,942,681

Notes to consolidated financial statements

for the year ended December 31, 1977

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 and depletion 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-finished 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) Fixed assets

Fixed assets are carried at cost less accumulated depreciation and depletion.

Depreciation charges are calculated using the straight-line method and the following rates:

Land improvements	5% to 10%
Buildings and structures	2½% to 10%
Machinery and equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%

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

(e) Unamortized debenture expense

Debenture expense is amortized over the term of the debenture in proportion to the principal amount outstanding during each year.

(f) Income taxes

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period when such items are reported for income tax purposes. The principal item which results in a timing difference for financial and tax reporting purposes is depreciation. No adjustment is made to deferred income tax accounts for subsequent changes in income tax rates.

2. Inventories

Inventories consist of:

	1977	1976
Finished and semi-processed products	\$ 6,213,433	\$2,690,205
Raw materials and fuel supplies	3,218,427	3,749,184
Maintenance and repair parts	4,199,131	3,657,574
	\$13,630,991	\$10,096,963

3. Fixed assets

(a) Fixed assets consist of:

	1977			1976
	Cost	Accumulated depreciation and depletion	Net	Net
Land and land improvements	\$ 3,223,949	\$ 502,654	\$ 2,721,295	\$ 2,057,911
Mineral properties	2,604,344	694,310	1,910,034	1,634,367
Buildings and structures	16,383,957	5,356,946	11,027,011	10,578,671
Machinery and equipment	53,087,996	22,313,577	30,774,419	31,964,928
Vehicles and mobile equipment	8,403,995	5,711,044	2,692,951	2,581,375
	\$83,704,241	\$34,578,531	\$49,125,710	\$48,817,252

(b) Depreciation and depletion deducted in the determination of net earnings are as follows:

	1977	1976
Depreciation	\$4,071,024	\$3,637,444
Depletion	47,437	50,373
	\$4,118,461	\$3,687,817

4. Long-term debt

Long-term debt consists of:

	1977		1976
	Due within one year	Long-term portion	Long-term portion
9¾% debenture due 1994	\$ 860,000	\$13,780,000	\$14,640,000
10% mortgages due 1978 to 1982	40,000	131,500	68,000
9¾% notes due 1981	108,865	286,365	395,231
5% mortgage bonds due 1978	135,500	—	135,500
Promissory notes, with interest at U.S. prime rate plus 1% (but not less than 8% or greater than 9%)			
"A" note, due 1980 to 1981 (U.S. \$1,250,000)	—	1,312,500	—
"B" note, due 1981 to 1983 (U.S. \$2,550,000)	—	2,677,500	—
Term bank loan, with interest at U.S. prime rate plus 1¼% (but not less than 8%) due 1979 to 1983 (U.S. \$3,000,000)	—	3,150,000	—
	\$1,144,365	\$21,337,865	\$15,238,731

The aggregate payments of principal required to meet debt obligations in each of the next five years are as follows:

1978	\$1,144,365
1979	1,544,738
1980	2,554,198
1981	2,457,430
1982	2,394,000

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 a subsidiary. 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, 1977 consolidated working capital and consolidated net tangible assets exceeded the specified levels.

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

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 \$306,000.

5. Income taxes

The total deferred income taxes to December 31, 1977 amount to \$14,168,130 of which \$4,122,000 was not recorded in the accounts. Until December 31, 1967 deferred income taxes were reported by

note to the financial statements. On January 1, 1968 the Company changed its method and recorded subsequent deferred income taxes in the accounts.

6. Share purchase plan and stock option

(a) Share purchase plan

Under the terms of the share purchase plan for key executives, as amended in 1976, 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, 1977, 76,000 shares had been allotted and issued as partly paid shares of which 25,000 shares at a price

of \$2.25 per share and 15,000 shares at a price of \$3.75 per share were allotted to an officer who is also a director and 10,000 shares at a price of \$2.60 per share and 2,000 shares at a price of \$3.75 per share were allotted to each of three other officers, one of whom is also a director. No instalment payments were in arrears on subscriptions under the share purchase plan.

(b) Stock option

An option, which was granted in 1969 to an officer who is not a director, to purchase 4,000 shares, which shares are reserved, at \$5.00 per share, was outstanding and exercisable as at December 31, 1977. This option expires in 1979.

7. Interest

Interest consists of:

	1977	1976
Long-term debt interest	\$2,022,724	\$1,614,853
Bank loan interest	637,701	1,107,714
Short-term deposits and other interest income	—	(106,500)
	\$2,660,425	\$2,616,067

8. Acquisition of cement grinding business

Effective April 16, 1977, a newly incorporated wholly-owned subsidiary acquired the net assets of a cement grinding business in Essexville, Michigan

for a consideration of \$6,391,145 (U.S. \$6,086,805) allocated and financed as follows:

Current assets	\$3,877,400
Current liabilities	163,755
Working capital	3,713,645
Fixed assets	2,677,500
Cost of acquisition	6,391,145
Issue of promissory notes and term bank loan (note 4)	7,140,000
Proceeds of borrowing in excess of cost	748,855
Working capital of acquired business	3,713,645
Working capital on acquisition of cement grinding business	\$4,462,500

9. Remuneration of directors and officers

During the year ended December 31, 1977, eleven directors received aggregate remuneration of \$51,500 as directors. Seven officers, three of whom

are also directors, received aggregate remuneration of \$324,043 as officers.

10. Lease agreements

The Company has existing lease agreements, primarily for shipping facilities, but also for land, buildings

and equipment, the minimum annual aggregate rentals for which total approximately \$1,400,000.

11. Pension plans

Based on the most recent actuarial reports, unfunded past service liabilities amounted to \$3,223,111 at December 31, 1977. This amount is fully vested and is being expensed and funded over periods from 13 to 20 years.

The total charge against operations in 1977, with respect to past service liabilities, amounted to \$315,091 including interest.

12. Prices and incomes legislation

The Company is subject to restraint of profit margins, prices, dividends and compensation of

employees under the Federal Anti-Inflation Act and Regulations.

13. Equipment failures

Included in accounts receivable is an estimate of insurance proceeds arising from losses from plant equipment failures that occurred during 1976.

Additional damages are being claimed from the manufacturer.

14. Other matters

On September 8, 1977 the United States Department of The Treasury initiated an investigation under the Antidumping Act of 1921, as amended, of imports of Portland cement from Canada by several Canadian cement producers, including the Company. It is expected that the final determination as to whether the Company may be liable for anti-

dumping duties will be made no sooner than September of 1978. Only those goods entered into the United States beginning on or about March 8, 1978 would be subject to any such duties. Should anti-dumping duties be imposed, the Company does not believe that they would have a material effect on its over-all operations.

Lake Ontario Cement Limited

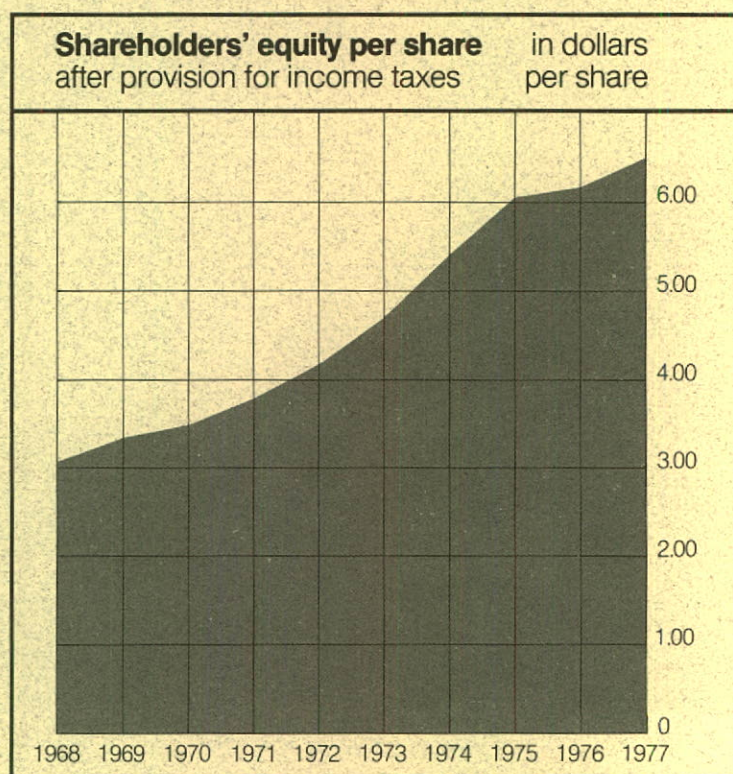
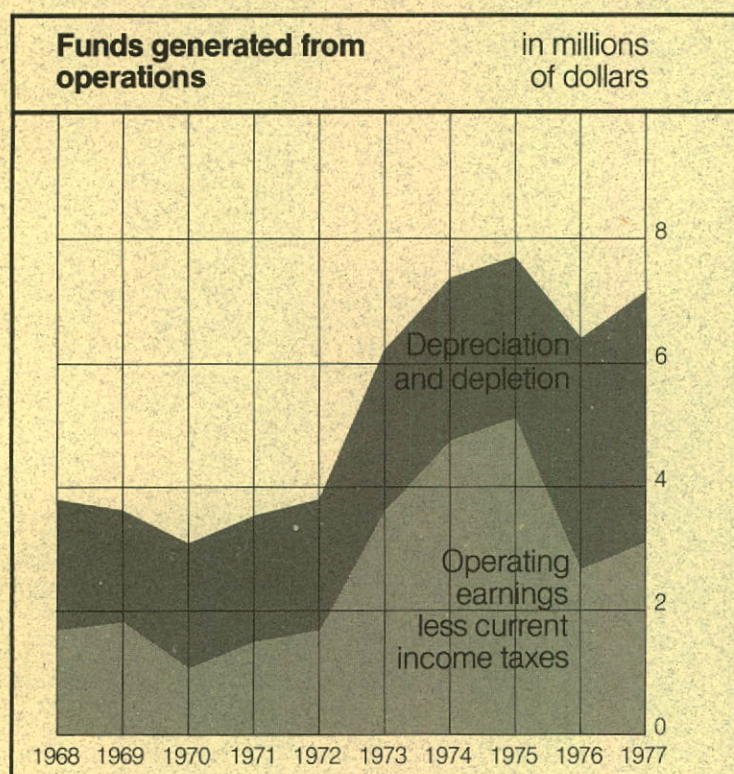
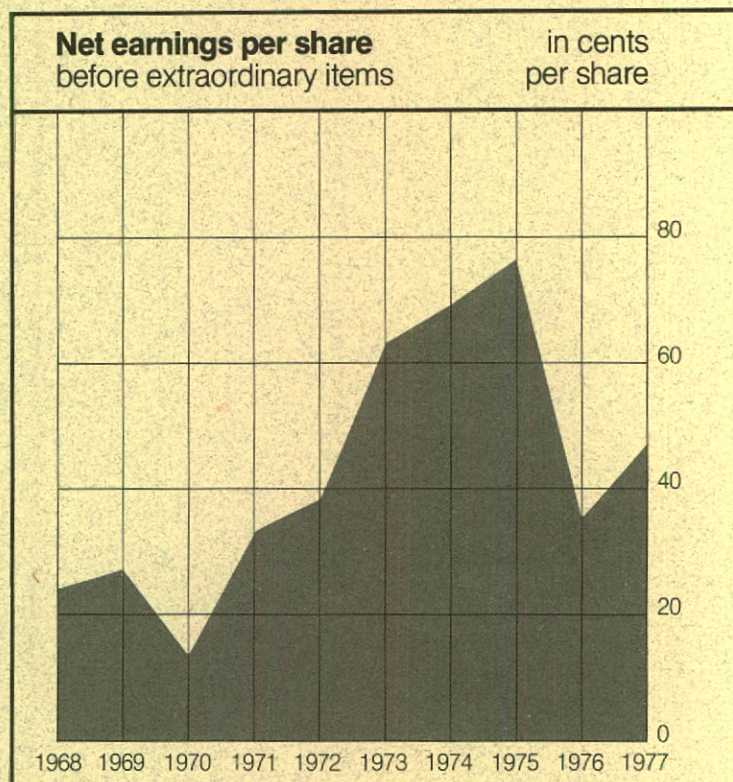
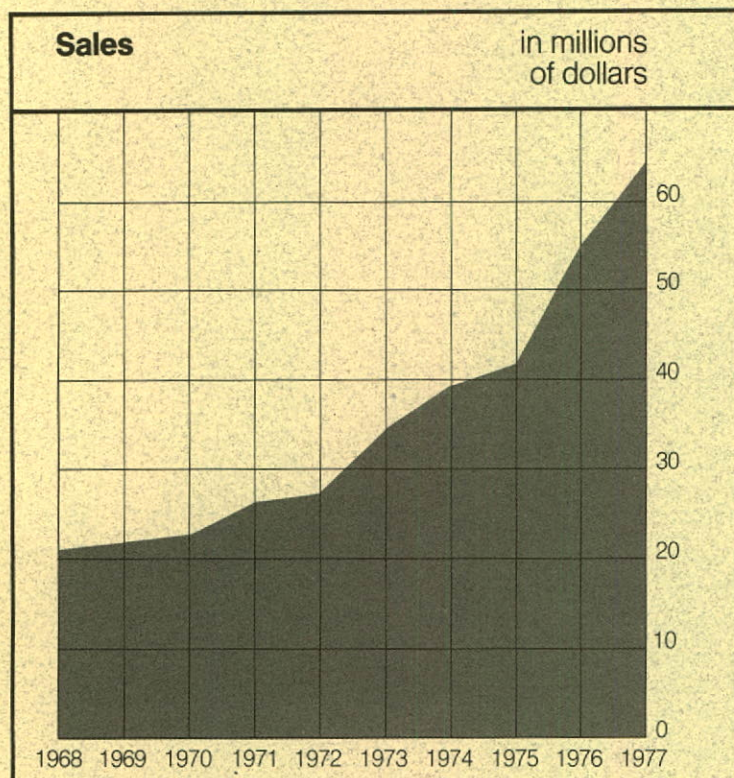
1968	1969	1970	1971	1972	1973	1974
\$20,931	\$21,736	\$22,617	\$26,443	\$27,338	\$34,883	\$39,398
15,674	16,651	18,246	20,576	20,926	26,483	30,155
5,257	5,085	4,371	5,867	6,412	8,400	9,243
2,071	2,164	2,198	2,273	2,348	2,758	3,152
1,209	1,174	1,084	987	1,098	1,124	1,089
3,280	3,338	3,282	3,260	3,446	3,882	4,241
1,977	1,747	1,089	2,607	2,966	4,518	5,002
845	805	555	1,292	1,440	1,818	2,230
1,132	942	534	1,315	1,526	2,700	2,772
95	112	34	109	274	213	226
(217)	87				(188)	482
\$ 1,010	\$ 1,141	\$ 568	\$ 1,424	\$ 1,800	\$ 2,725	\$ 3,480
4,223	4,223	4,223	4,223	4,278	4,302	4,302
23.9¢	27.0¢	13.5¢	33.7¢	42.1¢	63.3¢	80.9¢
					10.0¢	12.0¢
\$ 3.08	\$ 3.35	\$ 3.48	\$ 3.82	\$ 4.23	\$ 4.76	\$ 5.45
\$ 915	\$ 1,029	\$ 534	\$ 1,315	\$ 1,526	\$ 2,512	\$ 2,772
845	805	555	206	180	1,223	2,010
2,123	1,854	2,040	2,080	2,110	2,495	2,685
3,883	3,688	3,129	3,601	3,816	6,230	7,467
						900
		625	10,340	353		15,463
(305)	36	(29)	69	26	66	60
3,578	3,724	3,725	14,010	4,195	6,296	23,890
1,330	1,957	1,206	1,381	2,758	6,983	5,913
1,897	98	98	6,600	239	707	10,041
		82	200	228	465	1,046
					428	516
3,227	2,055	1,386	8,181	3,225	8,583	17,516
351	1,669	2,339	5,829	970	(2,287)	6,374
(\$ 4,554)	(\$ 2,885)	(\$ 546)	\$ 5,283	\$ 6,253	\$ 3,966	\$10,340

Ten year financial summary

Figures in thousands, except amounts per share

1975	1976	1977	
			Operating results
\$41,833	\$54,845	\$64,641	Sales
31,469	44,810	53,167	Cost of sales
10,364	10,035	11,474	Gross profit
3,688	4,869	5,756	Selling, general and administrative expenses
	(116)	(262)	Gain on foreign exchange
1,545	2,616	2,660	Interest
5,233	7,369	8,154	
5,131	2,666	3,320	Operating profit
2,045	1,126	1,262	Provision for income taxes
3,086	1,540	2,058	Net earnings before minority interest, income from investment and extraordinary items
	55	50	Minority interest in net earnings of subsidiary company
128			Investment income on equity basis
111			(Loss)/gain on disposal of fixed assets
\$ 3,325	\$ 1,485	\$ 2,008	Net earnings for the year
4,302	4,302	4,302	Number of common shares outstanding
77.3¢	34.5¢	46.7¢	Earnings per common share
15.0¢	20.0¢	20.0¢	Dividends per common share
\$ 6.07	\$ 6.21	\$ 6.48	Equity per common share (after full provision for deferred income taxes)
			Source of working capital
\$ 3,197	\$ 1,540	\$ 2,058	Net earnings before minority interest, income from investment and extraordinary items
1,900	1,159	1,022	Income taxes, deferred
2,673	3,667	4,038	Depreciation and other non-fund items (net)
7,770	6,366	7,118	
900	900		Amount due on settlement of legal action
	1,443	4,462	Working capital from acquisitions
	85	104	Proceeds from long-term debt
6	185	11	Other transactions
8,676	8,979	11,695	
			Application of working capital
15,262	2,236	1,655	Additions to property, plant and equipment (net)
124	1,333	1,145	Reduction in long-term debt
592			Current portion of deferred cost reduction, before income taxes
645	860	860	Dividends paid on common shares
16,623	4,429	3,660	
(7,947)	4,550	8,035	Increase/(decrease) in working capital
\$ 2,393	\$ 6,943	\$14,978	Working capital (deficiency)



Financial trends at a glance






Lake Ontario Cement Limited



The Company Logo

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

Canadian Cement Division

2 Carlton Street, Toronto, Ontario

J. D. Fowler, Executive Vice-President
B. T. Price, Vice-President - Operations
G. R. Wilson, General Sales Manager
W. F. Behan, General Credit Manager

Cement Manufacturing Plant:
Highway 49, Picton, Ontario

Sales Office:
2 Carlton Street, Toronto, Ontario

Toronto Distribution Plant:
312 Cherry Street, Toronto, Ontario

Windsor Distribution Plant:
210 Detroit Street, Windsor, Ontario

Ottawa Distribution Plant:
1815 Bantree Street, Ottawa, Ontario

Concrete Products Division

2 Carlton Street, Toronto, Ontario

K. Bruce, Vice-President and
General Manager
S. W. Knott, Manager - Operations

Premier Concrete Products

Toronto area:
1625 Shawson Drive, Mississauga, Ontario
A. S. Frayne, Sales Manager

Hamilton area:
349 Kenora Ave., Hamilton, Ontario
C. C. Husband, Area Manager

Ottawa area:
1815 Bantree Street, Ottawa, Ontario
W. H. North, Area Manager

Windsor area:
5115 E. C. Row Avenue, Windsor, Ontario
R. K. Post, Area Manager

Subsidiary Companies

Aetna Cement Corporation

Main Street, Essexville, Michigan

J. D. Fowler, Chairman of the Board
I. M. MacLachlan, President
K. L. Neering, Vice-President -
Marketing and Sales
L. D. Van Sumeren, Controller and
Administration Manager
A. M. Walraven, Plant Manager

Primeau Argo Block Co. Limited

170 Brockport Drive, Rexdale, Ontario

A. J. Primeau, Chairman of the Board
R. H. Grimm, President & Chief
Executive Officer
W. A. Primeau, Executive Vice-President
R. J. Primeau, Vice-President Operations
E. Taylor, Secretary-Treasurer

Rochester Portland Cement Corp.

361 Boxart St., Rochester, New York 14612

Division:
Mohawk Valley Cement Company

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

