Lake Ontario Cement Limited

and Subsidiary Companies

Annual Report 1976

Lake Ontario Cement Limited

Canadian Cement Division

2 Carlton Street, Toronto, Ontario

J. D. Fowler, Executive Vice-President
B. T. Price, Vice-President—Operations
J. J. Yelland, 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, 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

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
W. H. Ingmire, Sales Manager

Financial section

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 and
Corporate Controller

N. A. Crawford, Assistant Secretary

C. A. Gibbs, Assistant Treasurer

Head Office

2 Carlton Street, Toronto, Ontario

Subsidiaries

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.

1976

Financial highlights

	Year ended December 31	
	1976	1975
Sales	**$54,845,051**	$41,832,857
Net earnings for the year	**$ 1,484,745**	$ 3,324,809
Earnings per common share	**34.5¢**	77.3¢
Dividends per common share	**20.0¢**	15.0¢
Funds generated from operations	**$ 6,365,774**	$ 7,770,147
Capital expenditures	**$ 2,324,672**	$15,434,442
Working capital	**$ 6,942,681**	$ 2,393,232
Long-term debt (including amounts due within one year)	**$16,595,954**	$15,822,044
Shareholders' equity	**$30,711,675**	$30,061,797
Equity per common share (after full provision for deferred income taxes)	**$ 6.21**	$ 6.07

Review of quarterly sales and earnings

	Sales $ thousands		**Net earnings $ thousands**		**Net earnings ¢ per share**	
	1976	1975	**1976**	1975	**1976**	1975
1st quarter	**6,159**	5,063	**(838)**	(335)	**(19.5)**	(7.8)
2nd quarter	**17,652**	10,901	**1,338**	1,136	**30.5**	26.4
3rd quarter	**17,450**	14,729	**748**	1,729	**17.4**	40.2
4th quarter	**13,584**	11,140	**237**	795	**6.1**	18.5
	54,845	41,833	**1,485**	3,325	**34.5**	77.3

Partly-owned subsidiary company sales included in 1976 only (note 8)

Lake Ontario Cement Limited

Consolidated balance sheet as at December 31

Assets	1976	1975
Current assets		
Cash	**$ 378,262**	$ 229,801
Accounts receivable	**9,822,437**	8,678,563
Current amount due on settlement of legal action (note 10)	**900,000**	900,000
Inventories (notes 1(c) and 2)	**10,096,963**	9,546,042
Prepaid expenses	**314,614**	307,417
	$21,512,276	$19,661,823
Amounts due on settlement of legal action and other items (note 10)	**$ —**	$ 1,076,182
Investment in associated company (note 8)	**$ —**	$ 1,671,678
Fixed assets (notes 1(d) and 3)	**$48,817,252**	$48,206,620
Unamortized debenture expense (note 1(e))	**$ 117,787**	$ 132,329
	$70,447,315	$70,748,632

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, 1976 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, 1976 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 11, 1977.

Coopers & Lybrand
Chartered Accountants

Liabilities	1976	1975
Current liabilities		
Bank loan	**$ 8,000,000**	$ 8,500,000
Accounts payable and accrued liabilities	**5,212,372**	8,052,791
Long-term debt due within one year (note 4)	**1,357,223**	123,800
Current portion of deferred cost reduction, before income taxes (note 10)	**—**	592,000
	$14,569,595	$17,268,591
Long-term debt (note 4)	**$15,238,731**	$15,698,244
Minority interest in subsidiary company	**$ 903,334**	$ —
Deferred income taxes (notes 1(f) and 6)	**$ 9,023,980**	$ 7,720,000
Shareholders' equity		
Capital stock (note 5)		
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 5)	**140,393**	166,018
	$ 9,042,229	$ 9,016,604
Retained earnings (notes 4 and 6)	**21,669,446**	21,045,193
	$30,711,675	$30,061,797
	$70,447,315	$70,748,632

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	1976	1975
Sales	**$54,845,051**	$41,832,857
Cost of sales (note 10)	**44,810,030**	31,468,775
Gross profit	**$10,035,021**	$10,364,082
Selling, general and administrative expenses	**$ 4,752,798**	$ 3,687,831
Gain on disposal of fixed assets	**—**	(110,857)
Interest (note 7)	**2,616,067**	1,545,649
	$ 7,368,865	$ 5,122,623
Operating profit	**$ 2,666,156**	$ 5,241,459
Provision for income taxes (notes 1(f) and 6)	**$ 1,126,000**	$ 2,045,000
Net earnings before minority interest and income from investment	**$ 1,540,156**	$ 3,196,459
Minority interest in net earnings of subsidiary	**55,411**	—
Share of net income of associated company (note 8)	**—**	128,350
Net earnings for the year	**$ 1,484,745**	$ 3,324,809
Net earnings per common share	**34.5¢**	77.3¢

Consolidated statement of retained earnings

for the year ended December 31	1976	1975
Retained earnings—beginning of year	**$21,045,193**	$18,365,754
Net earnings for the year	**1,484,745**	3,324,809
	$22,529,938	$21,690,563
Dividends paid	**860,492**	645,370
Retained earnings—end of year	**$21,669,446**	$21,045,193

Consolidated statement of changes in financial position

for the year ended December 31	1976	1975
Source of working capital		
Net earnings before minority interest and income from investment	**$ 1,540,156**	$ 3,196,459
Depreciation, depletion and other items	**3,666,618**	2,673,688
Income taxes—deferred	**1,159,000**	1,900,000
Current operations	**$ 6,365,774**	$ 7,770,147
Current amount due on settlement of legal action (note 10)	**900,000**	900,000
Issue of 10% mortgage	**85,000**	—
Net working capital on consolidation of newly acquired subsidiary (note 8)	**1,442,982**	—
Other transactions	**185,307**	5,893
	$ 8,979,063	$ 8,676,040
Application of working capital		
Additions to fixed assets	**$ 2,235,768**	$15,261,520
Current portion of long-term debt	**1,333,354**	123,800
Current portion of deferred cost reduction, before income taxes (note 10)	**—**	592,000
Dividends paid	**860,492**	645,370
	$ 4,429,614	$16,622,690
Increase (decrease) in working capital	**$ 4,549,449**	$ (7,946,650)
Working capital—beginning of year	**2,393,232**	10,339,882
Working capital—end of year	**$ 6,942,681**	$ 2,393,232

Notes to consolidated financial statements

for the year ended December 31, 1976

1. Summary of accounting policies

(a) Principles of consolidation

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

(b) Translation of foreign currencies

Foreign currencies have been translated to Canadian dollars as follows:

(i) current assets and current liabilities at the rate of exchange at the balance sheet date;

(ii) fixed assets and related depreciation at the rate of exchange prevailing at the time of acquisition;

(iii) all items, excluding depreciation, on the statement of earnings at the average rate of exchange for the period calculated on a monthly basis.

(c) Inventories

Inventories are carried at average cost, which is lower than replacement cost and net realizable value. For finished and semi-processed products, cost includes attributable direct costs and overheads, other than depreciation.

(d) Fixed Assets

Fixed assets are carried at cost less depreciation and depletion.

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

Buildings and structures	2½% to 10%
Machinery and other equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%
Leasehold improvements	term of lease

Depletion on mineral deposits 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) Deferred income taxes

Deferred income taxes result from claiming, for tax purposes, capital cost allowance on fixed assets in excess of depreciation and depletion recorded in the books of account.

2. Inventories

Inventories consist of:

	1976	1975
Finished and semi-processed products	**$ 2,690,205**	$1,448,594
Raw materials	**3,749,184**	5,388,622
Maintenance and repair parts, and supplies	**3,657,574**	2,708,826
	$10,096,963	$9,546,042

3. Fixed assets

(a) Fixed assets are comprised of the following amounts:

			1976	1975
	Cost	Accumulated depreciation & depletion	Net	Net
Land, land improvements and mineral resources	$ 4,774,183	$ 1,081,905	$ 3,692,278	$ 2,792,764
Buildings and structures	15,467,009	4,888,338	10,578,671	10,567,859
Machinery and equipment	51,592,196	19,627,268	31,964,928	31,614,534
Vehicles and mobile equipment	7,949,779	5,368,404	2,581,375	3,068,870
Construction in progress	—	—	—	162,593
	$79,783,167	$30,965,915	$48,817,252	$48,206,620

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

	1976	1975
Depreciation	$3,637,444	$2,742,809
Depletion	50,373	26,650
	$3,687,817	$2,769,459

4. Long-term debt

Long-term debt is comprised of:

			1976	1975
	Due within one year	Long-term portion		Long-term portion
9¾% secured debenture due September 30, 1994	$ 860,000	$14,640,000		$15,500,000
8% to 10% Mortgages due from 1977 to 1981	215,244	68,000		198,244
5% mortgage bonds payable in 1977 and 1978	183,000	135,500		—
9¾% notes due January 31, 1981, payable quarterly	98,979	395,231		—
	$1,357,223	$15,238,731		$15,698,244

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

1977	$1,357,223
1978	1,121,365
1979	996,738
1980	1,008,698
1981	911,930

The $15,500,000 debenture is payable in annual instalments of $860,000 commencing September 30, 1977 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 certain specified levels 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 certain specified level. At December 31, 1976 consolidated working capital and consolidated net tangible assets exceeded the specified amounts.

Interest on long-term debt is charged to earnings.

5. Share purchase plan and stock options

(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, 1976, 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) Incentive stock option plan and other option

Under the terms of the incentive stock option plan, there were outstanding and exercisable as at December 31, 1976 options to purchase 10,000 shares at $5.00 per share. In all cases, the option price was not less than 95% of the market price at date of grant. Of these outstanding options, 3,000 shares were granted to officers. These options expire in 1977. No further options may be granted under the plan.

An option, which was granted in 1969 to an officer who is not a director, to purchase 4,000 shares at $5.00 per share, was outstanding and exercisable as at December 31, 1976. This option expires in 1979.

At December 31, 1976, 14,000 common shares were reserved in connection with the incentive stock option plan and the other option.

6. Income taxes

(a) The total deferred income taxes to December 31, 1976 amount to $13,145,980 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.

(b) The Company has reduced the current year's provision for deferred income taxes by $60,000 as a result of benefits arising from the federal government's current 5% investment tax credit programme.

7. Interest

Interest is comprised of the following amounts:

	1976	1975
Interest on long-term debt	**$1,614,853**	$1,553,513
Interest on bank loan	**1,107,714**	331,556
Interest income on short-term deposits and other receivables	**(106,500)**	(339,420)
	$2,616,067	$1,545,649

8. Investment

Effective January 1, 1976, the Company acquired an additional 22½% of the outstanding common shares of an associated company for a consideration of $810,000. The consideration was $202,500 paid on closing and the balance by 20 quarterly instalments, with interest on the outstanding balance at 9¾% per annum. Prior to 1976, the Company owned 50% of the equity of this company and accounted for its share of income from this investment by the equity method.

A summary of this partly owned subsidiary company's assets and liabilities as at January 1, 1976 is as follows:

Current assets	$2,493,771
Current liabilities	(711,130)
	$1,782,641
Fixed assets—net of depreciation	1,958,195
Long-term debt	(452,500)
Deferred income taxes	(144,980)
Net assets	$3,143,356

9. Remuneration of directors and officers

During the year ended December 31, 1976, eleven directors received aggregate remuneration of $48,406 as directors and six officers, as defined in the Canada Corporations Act, three of whom are also directors, received aggregate remuneration of $268,943 as officers.

Aggregate remuneration of directors and senior officers, as defined in the Ontario Securities Act, totalled $359,699 during 1976.

10. Settlement of legal action

In 1975 the Company obtained a settlement of a legal action relating to a contract for the long-term supply of fuel to the Company's plant in Picton. The settlement provided for the payment to the Company of $2.7 million in instalments of $900,000 on January 15 in each of 1975, 1976 and 1977, of which two instalments have been received. The Company has accounted for the settlement by allocating the proceeds, net of expenses, to cost of sales over the years to which the settlement relates. After provision for related income taxes, net earnings were increased as follows:

Periods prior to 1975	$ 535,000
1975	575,000
1976	325,000
	$1,435,000

11. 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 $1,200,000.

12. Pension plans

Based on the most recent actuarial reports, unfunded past service liabilities amounted to $1,294,245 at December 31, 1976. This amount is fully vested and is being expensed and funded over the next 14 years.

The total charge against operations in 1976, with respect to past service liabilities, amounted to $172,937 including interest.

13. 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.

14. Equipment failures

Recorded in these accounts is an estimate of insurance proceeds arising from losses from plant equipment failures that occurred during the year.

Additional damages are being claimed from the manufacturer.

Lake Ontario Cement Limited

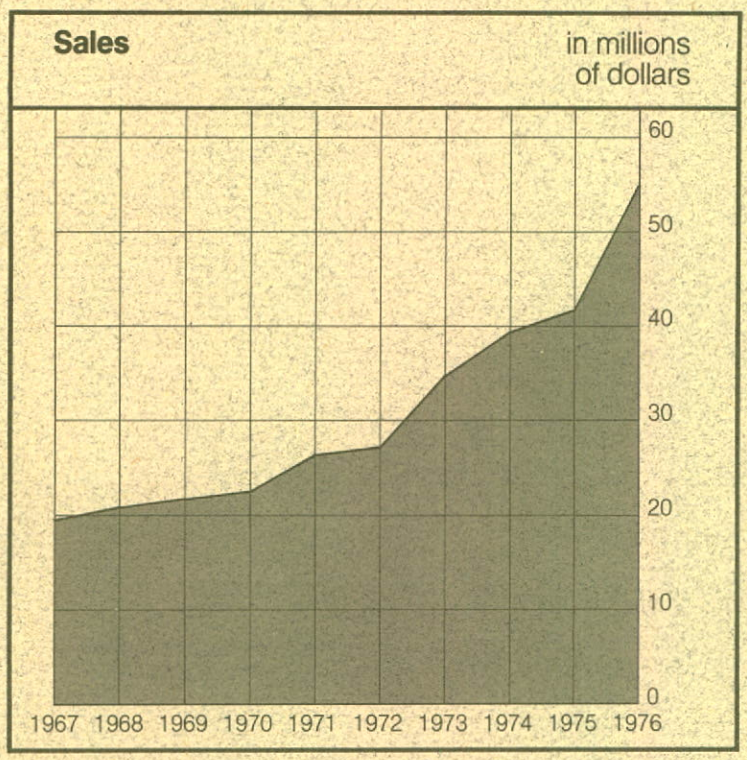
1967	1968	1969	1970	1971	1972	1973
$19,542	$20,931	$21,736	$22,617	$26,443	$27,338	$34,883
15,298	15,674	16,651	18,246	20,576	20,926	26,483
$ 4,244	$ 5,257	$ 5,085	$ 4,371	$ 5,867	$ 6,412	$ 8,400
$ 1,981	$ 2,071	$ 2,164	$ 2,198	$ 2,273	$ 2,348	$ 2,758
	217	(87)				188
1,149	1,209	1,174	1,084	987	1,098	1,124
$ 3,130	$ 3,497	$ 3,251	$ 3,282	$ 3,260	$ 3,446	$ 4,070
$ 1,114	$ 1,760	$ 1,834	$ 1,089	$ 2,607	$ 2,966	$ 4,330
621	845	805	555	1,292	1,440	1,818
$ 493	$ 915	$ 1,029	$ 534	$ 1,315	$ 1,526	$ 2,512
69	95	112	34	109	121	213
					153	
$ 562	$ 1,010	$ 1,141	$ 568	$ 1,424	$ 1,800	$ 2,725
4,213	4,223	4,223	4,223	4,223	4,278	4,302
13.4¢	23.9¢	27.0¢	13.5¢	33.7¢	42.1¢	63.3¢
						10.0¢
$ 2.84	$ 3.08	$ 3.35	$ 3.48	$ 3.82	$ 4.23	$ 4.76
$ 493	$ 915	$ 1,029	$ 534	$ 1,315	$ 1,526	$ 2,512
621	845	805	555	206	180	1,223
1,773	2,123	1,854	2,040	2,080	2,110	2,495
$ 2,887	$ 3,883	$ 3,688	$ 3,129	$ 3,601	$ 3,816	$ 6,230
230			625	10,340	353	
94	(305)	36	(29)	69	26	66
$ 3,211	$ 3,578	$ 3,724	$ 3,725	$14,010	$ 4,195	$ 6,296
$ 2,179	$ 1,330	$ 1,957	$ 1,206	$ 1,381	$ 2,758	$ 6,983
1,909	1,897	98	98	6,600	239	707
			82	200	228	465
						428
$ 4,088	$ 3,227	$ 2,055	$ 1,386	$ 8,181	$ 3,225	$ 8,583
($ 877)	$ 351	$ 1,669	$ 2,339	$ 5,829	$ 970	($ 2,287)
($ 4,905)	($ 4,554)	($ 2,885)	($ 546)	$ 5,283	$ 6,253	$ 3,966

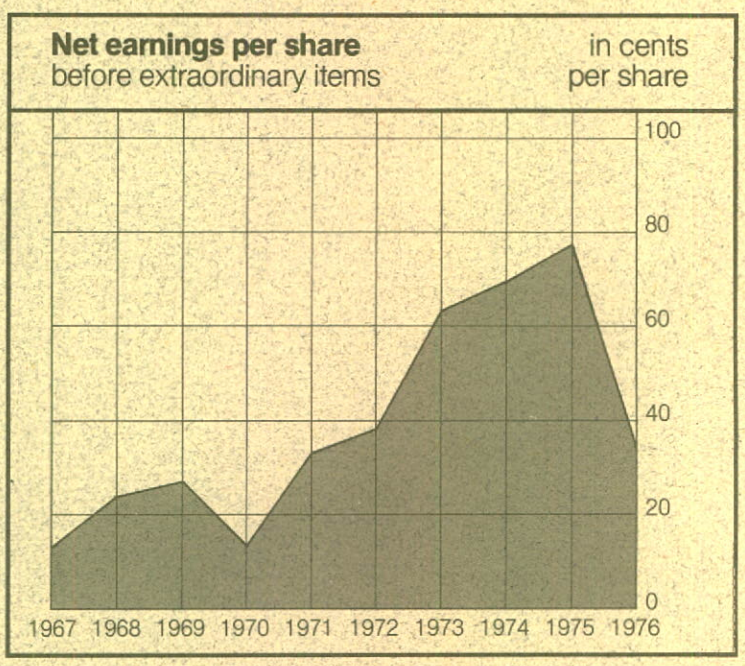
Ten year financial summary

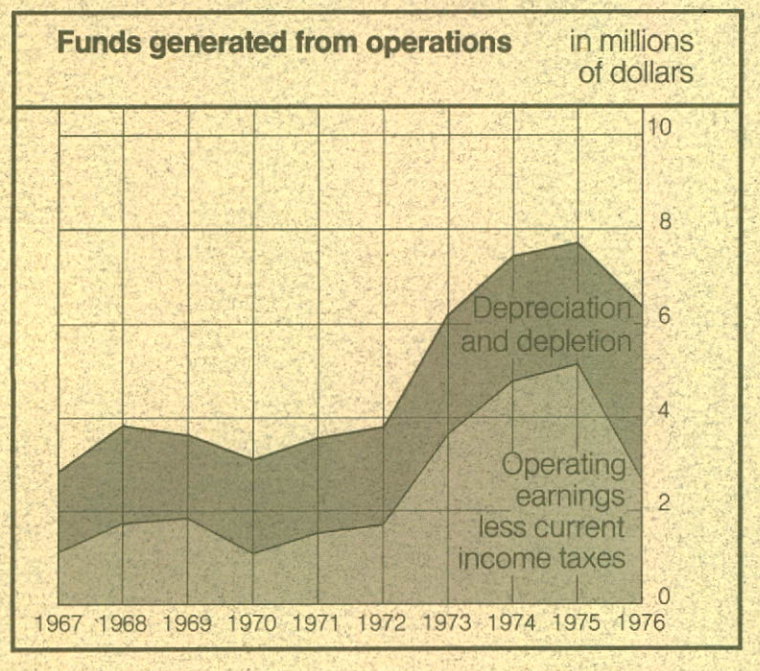
Figures in thousands, except amounts per share

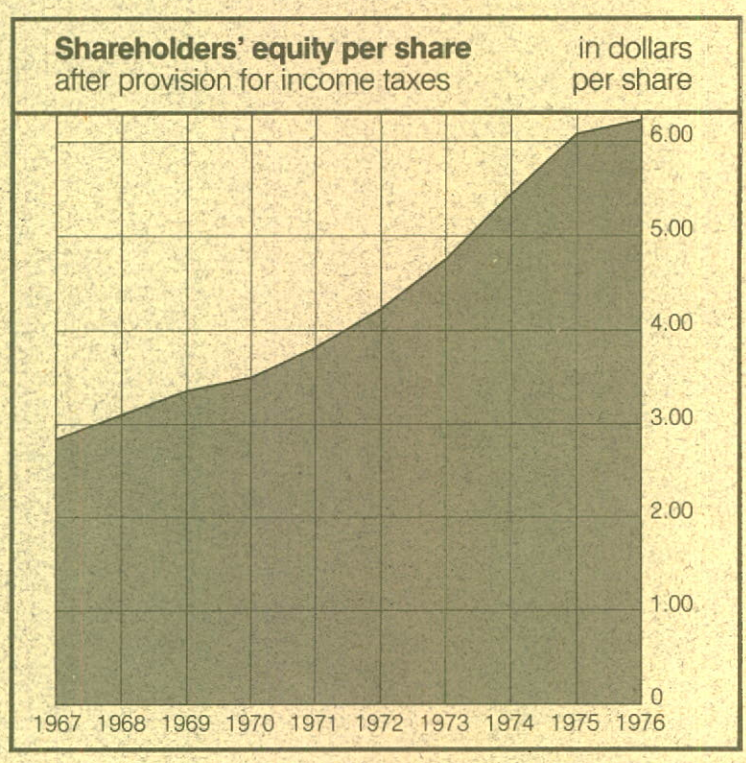
1974	1975	**1976**	
			Operating results
$39,398	$41,833	**$54,845**	Sales
30,155	31,469	**44,810**	Cost of sales
$ 9,243	$10,364	**$10,035**	Gross profit
$ 3,152	$ 3,688	**$ 4,753**	Selling, general and administrative expenses
	(111)		Net loss/(gain) on disposal of fixed assets
1,089	1,545	**2,616**	Interest on borrowed funds (net)
$ 4,241	$ 5,122	**$ 7,369**	
$ 5,002	$ 5,242	**$ 2,666**	Operating profit
2,230	2,045	**1,126**	Full provision for current and deferred income taxes
$ 2,772	$ 3,197	**$ 1,540**	Net earnings before minority interest, income from investment and extraordinary items
		55	Minority interest in net earnings of subsidiary company
			Investment income on equity basis
226	128		—before extraordinary item
			—extraordinary item
482			Extraordinary gain on disposal of property
$ 3,480	$ 3,325	**$ 1,485**	Net earnings for the year
4,302	4,302	**4,302**	Number of common shares outstanding
80.9¢	77.3¢	**34.5¢**	Earnings per common share (including extraordinary items)
12.0¢	15.0¢	**20.0¢**	Dividends per common share
$ 5.45	$ 6.07	**$ 6.21**	Equity per common share (after full provision for deferred income taxes)
			Source of working capital
$ 2,772	$ 3,197	**$ 1,540**	Net earnings before minority interest, income from investment and extraordinary items
2,010	1,900	**1,159**	Income taxes, deferred
2,685	2,673	**3,667**	Depreciation and other non-fund items (net)
$ 7,467	$ 7,770	**$ 6,366**	
900	900	**900**	Current amount due on settlement of legal action
		1,443	Net working capital on consolidation of newly acquired subsidiary company
15,463		**85**	Proceeds from long-term debt
60	6	**185**	Other transactions
$23,890	$ 8,676	**$ 8,979**	
			Application of working capital
$ 5,913	$15,262	**$ 2,236**	Additions to property, plant and equipment (net)
10,041	124	**1,333**	Reduction in long-term debt
1,046	592		Current portion of deferred cost reduction, before income taxes
516	645	**860**	Dividends paid on common shares
$17,516	$16,623	**$ 4,429**	
$ 6,374	($ 7,947)	**$ 4,550**	Increase/(decrease) in working capital
$10,340	$ 2,393	**$ 6,943**	Working capital (deficiency)

Financial trends at a glance

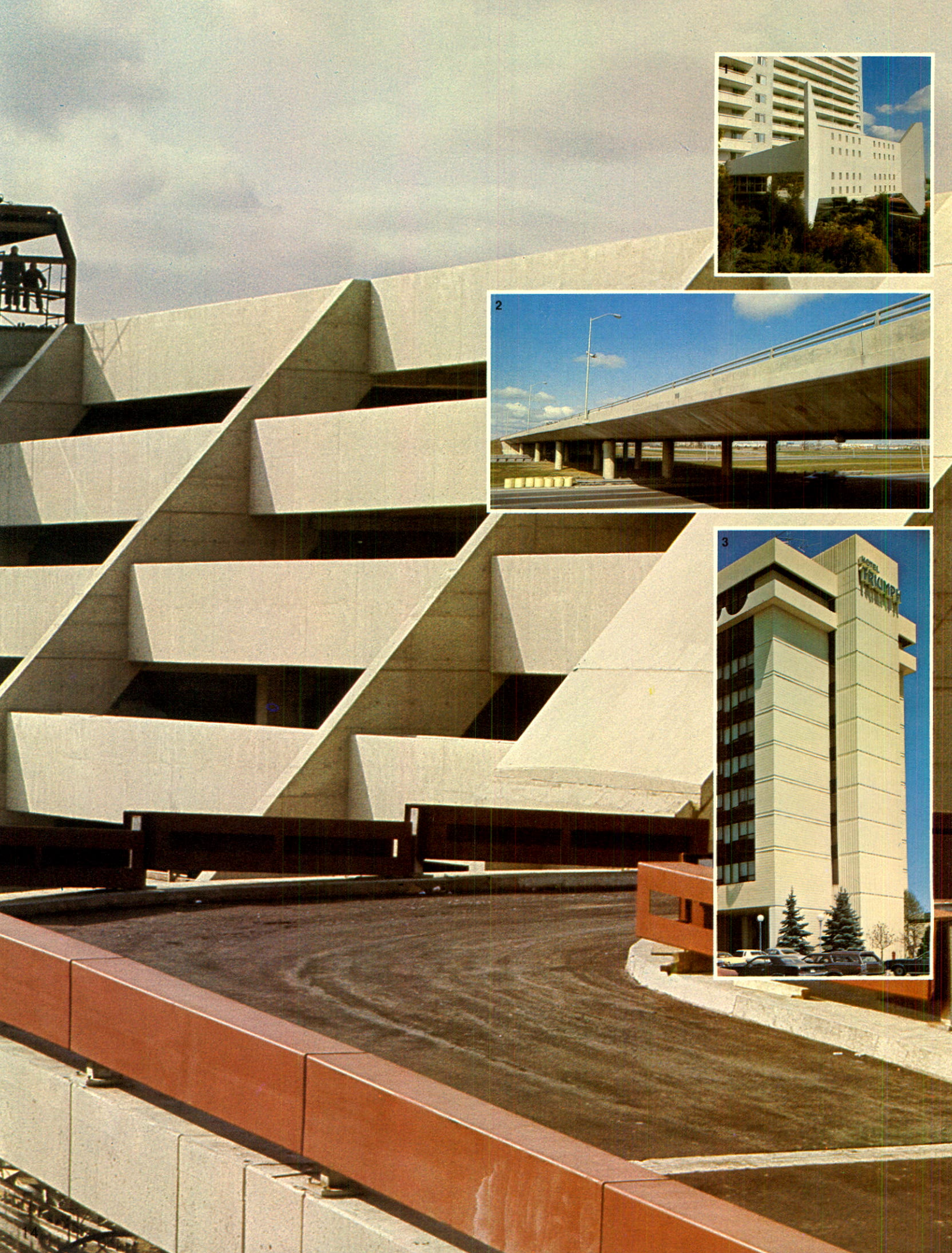








Summary of contents


1
2
3
HOTEL
TRIUMPH

Report to shareholders

Opposite page: The first of three parking garage modules to serve Terminal 2 of Toronto International Airport is built almost entirely of concrete consuming 14,000 cubic yards of ready-mixed concrete.
1. The sculptural ability of concrete is amply demonstrated by this canopy entrance to a large apartment building in Mississauga, Ontario.
2. The Dixie Road overpass west of Toronto is constructed of site-placed, post-tensioned concrete. The guardrail was poured in place.
3. The designers of Hotel Triumph chose fluted concrete masonry from Primeau Argo Block to complement the poured-in-place exterior finish.
4. A Toronto architect-builder designed his new home using salmon-coloured scored concrete block as both the interior and exterior. The cores of the block are filled with insulation to provide the necessary thermal properties.

On behalf of the Board of Directors, I am pleased to present the Annual Report of the Company for the year ended December 31, 1976.

Financial results

Consolidated sales for the year reached $54,845,051, up 31% from the 1975 level of $41,832,857. Earnings were significantly lower at $1,484,745 (34.5¢ per share), when compared to $3,324,809 (77.3¢ per share) for the previous year. The increase in sales resulted from the shipments under a major contract to supply clinker which commenced in 1976 and the full consolidation for the first time of the results of Primeau Argo Block Co. Limited. While ready-mixed concrete shipments were up, shipments of cement, concrete blocks and aggregates were down from 1975 levels, reflecting the generally weak construction market and limitations on production arising from difficulties at our Picton cement plant.

While the dollar volume of the Company's overall product shipments advanced to record levels in 1976, net earnings dropped for the first time since 1970. The decline in net earnings was attributable to a number of negative factors— the principal ones being a decline in margins in our New York market area because of depressed market conditions, intense pricing competition in the ready-mixed concrete industry in Ontario, particularly in the Toronto and Hamilton areas, and substantial extraordinary costs and losses occasioned by the mechanical failure of certain units of new production equipment at the Company's Picton cement plant. Other factors adversely affecting performance during the year were high interest rates, unfavourable exchange rates for the conversion of U.S. funds to Canadian, a weak construction industry in both the U.S. and Canada and the Anti-Inflation Regulations which have effectively prohibited us from obtaining higher prices for some products in spite of increasing costs.

The Company has enjoyed a substantial growth rate over the last five years and it is hoped that many of the negative conditions which occurred in 1976 will no longer prevail in 1977 and that we will see a rising trend in earnings. We believe that the mechanical problems at the Picton cement plant have been identified and are being corrected and that the major costs have now been absorbed. Interest rates are declining and exchange rates are more attractive for our export business. While the New York State construction industry shows no significant signs of improving, the construction market in Michigan, where our clinker is shipped, seems to be increasing in activity. The ready-mixed concrete price war in Toronto and Hamilton is continuing, however, with no early end in sight.

In January of 1976, the Company acquired an additional 22½% of the outstanding shares of Primeau Argo Block Co. Limited, a company in which Lake Ontario Cement previously owned 50% of the shares. As a result, the financial statements of this partly-owned subsidiary company have been fully consolidated in the year 1976 with those of Lake Ontario Cement. Primeau Argo Block is a major manufacturer of concrete block in the Metropolitan Toronto region, having plants in Cooksville, Markham and Pickering.

Cement Division

Shipments under the export contract to supply clinker (semi-finished cement) commenced in April of 1976 to the Essexville plant of Martin Marietta Corporation. The year 1976 was the first year of what is now a four year supply contract.

The State of New York has been severely affected by the financial problems of New York City and, in addition, by a sluggish rise in the U.S. economy. Total shipments of cement in our New York State market from all suppliers are believed to have declined in 1976 about 8%

from depressed 1975 levels. Prices have not been increased in nearly two years in most of this market area in spite of steadily increasing costs.

The major expansion of the Picton cement plant, including the installation of the new fuel-efficient preheater kiln, was completed at the end of 1975. While the Company anticipated major benefits from this equipment in 1976, mechanical failures of certain units of equipment occurred during the year. These failures, unfortunately, happened at times when the scheduled maximum production level was needed to meet total cement customer demand and export clinker shipments. Accordingly, the Company has lost sales and was required to continue to run its older and higher cost facilities and, in addition, to incur substantial expenditures in order to minimize the resultant shortfall in production. The Company is filing a substantial claim for extra costs and losses incurred.

Concrete Products Division

The Concrete Products Division consists of a number of ready-mixed concrete plants in Toronto, Hamilton, Burlington, Oshawa, Ottawa and Windsor, sand and gravel operations in the Metro Toronto area and a concrete block plant in Windsor. This division had a slightly higher level of product shipments in 1976 compared to the 1975 level. In the Toronto and Hamilton regions, however, there was a substantial selling price war in the ready-mixed concrete market with prices substantially below those justified by increasing costs. This price war has been triggered principally by the fact that the Ontario concrete producing industry had expanded to meet the peak demands for its product in 1973 and 1974, but with the construction slowdown of late 1975 and 1976 it had excess production capacity. We do not see any early end to the depressed price levels in this highly competitive market.

Capital expenditures

During 1974 and 1975, a total of approximately 22 million dollars was spent, principally to expand the cement plant at Picton and modernize ready-mixed concrete plants and delivery equipment. In 1976, capital expenditures totalled $2,324,672 of which $566,300 was for completion of the expansion plus $1,758,372 for other capital programs and replacement equipment. Capital expenditures for 1977 are budgeted at approximately the same level as in 1976.

Financial position

Working capital at the end of 1976 was $6,942,681 compared to the 1975 year end level of $2,393,232. The Company will continue to have a substantial operating bank loan well into 1977, reflecting the continuing heavy cash need for product inventory build-up. It is expected that the bank loan will be reduced and working capital further improved by the 1977 year end.

Dividends

Two semi-annual dividends totalling 20¢ per share for the year were declared and paid on the outstanding common shares of the Company compared to 15¢ paid in 1975. Dividends paid for the year 1976 amounted to $860,492 compared to $645,370 in 1975.

Anti-inflation legislation

Lake Ontario Cement Limited is a company which is subject to the Canadian Federal Government Anti-Inflation Act and Regulations brought into force late in 1975. The Company's operations are substantially affected by the Government control program on profits, dividends, prices, employee salaries and union wage settlements. The Company is also one of those required to notify the Anti-Inflation Board before implementing selling price increases.

The economy of the country is being affected by the Anti-Inflation legislation and, while we agree there is a need to control inflation, we find the policies of the Federal Government bureaucracy involved in the administration of this program to be overwhelming. The complexity of the Regulations and the constant

William M. Bateman, President, and Stephen B. Roman, Chairman of the Board.

change in direction and in content, together with the apparent confusion on the part of Government as to what should be controlled and how controls should be applied, have presented severe problems, not only to our Company but to others in industry, in endeavouring to develop effective strategies for growth and in day-to-day operations. We believe the Government program to control inflation is causing detrimental side effects because of its bureaucratic interference in the economy.

Outlook

The Company is concerned with the present economic situation in Canada. We consider that the Anti-Inflation program, rent controls in the Province of Ontario, the decrease in productivity of the Canadian worker and the political situation in the Province of Quebec to be factors which are having serious long-term negative effects on the Canadian economy and the construction activities which the Company serves. In addition, the Company's market in the United States, principally western New York State, has been very slow in recovering from the recent recession. Accordingly, we view the year 1977 with considerable caution although we expect that there will be some increase in the volume of shipments of Company products. Since the U.S. market has become an increasingly significant factor in the Company's fortunes, the recent major swing in the rate of exchange on the U.S. dollar from a discount to a premium, if it can be sustained, should assist earnings in 1977. Similarly, if interest rates decline further, there should be an improved climate for the construction industry as well as a reduced cost to the Company with respect to its bank borrowings.

While the Company experienced in 1976 a drop in earnings for the first time since 1970, we believe that the expansion of its cement facility was most timely and will reflect a greater profitability over the long term.

Directors

On February 8, 1976, Mr. R. A. Smith, Q.C., was elected a Director of your Company. Mr. Smith is a senior partner in the firm of Smith, Lyons, Stevenson, Torrance and Mayer of Toronto.

The Board of Directors wishes to express its appreciation to the employees of the Company, who through their dedication and hard work handled a most difficult year for the Company.

On behalf of the Board of Directors,

W. M. Bateman
President

January 11, 1977

1

2

Concrete is boon to housing industry

Opposite page: This apartment block depends on a site-cast concrete frame. The facing is of precast concrete panels.
1. The sound-dampening, structural and fire resistant qualities of concrete masonry contribute to a unique style of housing. This single family dwelling is in Unionville, Ontario.
2. Lake Ontario cement is used in the production of these Uni-stone interlocking paving blocks.
3. Concrete is the choice of homeowners who want attractive swimming pools that are durable and economical to maintain. This pool is by Coles and Orland Limited.
4. Ready-mixed concrete is favoured by most residential builders for fast completion of basement walls and floors.

From cement to concrete

Cement is the key, irreplaceable ingredient in concrete. Depending on how the concrete is used, cement may constitute anywhere from five to 25 per cent of the final in-place cost but only 10-12 per cent of the weight.

Another ingredient that goes into concrete is of course water, which combines with the cement. Together these two form the paste that generates by hydration the chemical process which binds the aggregates—sand and gravel, crushed stone, blast-furnace slag or other inert materials—into the rocklike mass known as concrete.

Concrete is the most widely used construction material around the world, and nearly all cement is used in this process. At appreciably less than one cent per pound, concrete offers more value than probably any other building material. The cost of the Portland cement content in building today amounts to about $2 for every $100 in total value of building construction.

Though Portland cement as we know it was developed in the early part of the last century, concrete has been in use in various forms for centuries. Structures like the Parthenon and the Roman aqueducts were built with cementing materials 2000 years ago.

It is important to note that relatively less energy is consumed in the production of cement than in the production of comparable building materials such as steel and aluminum. Environmental effects are minimal, no pollutants being produced in the manufacturing process, and the product itself is neither poisonous nor combustible.

Cement, of course, is a totally domestic product, not subject to international economic changes. The raw materials that are used in its production remain in ample supply in Canada, while other building materials like timber, steel and aluminum become relatively scarcer and more costly.

Residential building

Home builders know they can depend on the contents of the ready mix concrete truck because of the strict quality control exercised at the mixing plant. Such plants, in fact, produce some 64 per cent of all concrete.

The footings and basement floor and walls of an average detached house require about 40-50 cubic yards of ready mixed concrete containing 8 or 9 tons of Portland cement. With block walls, the cement content of the reduced amount of ready mix is about 3 tons.

Previously used only for warehouse, factory and basement walls, concrete block is coming into its own as an architectural material. Products of Primeau Argo Block Co. Limited are available in a variety of textures and increasingly are being used in single and two-level residential construction. Insulation, styrofoam as well as glass fibre, can be added quickly to the insides of the walls to provide effective protection against heat and cold.

More and more concrete bricks are being produced in colour ranges and textures comparable to clay bricks. Every month concrete bricks are increasing their share of the Canadian market. They are faster to produce than clay bricks and less energy is consumed in the curing process.

Just as paving stones are now produced in a wide variety of shapes by machines that turn them out like cookies, the industry can see the time coming when concrete bricks will be produced in greater quantities than clay bricks.

Interlocking paving stones available in new colours and textures, are in increased demand for driveways as well as walkways and

Concrete in commercial construction–'energy efficient'

breezeways because of their load-bearing capabilities. Concrete is still the choice of those who want a top quality swimming pool.

Concrete pipe continues to be in demand because its durability and strength is equal to or better than any other products available—plastic or clay.

Masonry cement is used extensively for all types of brick and block construction, being the main constituent of the mortar which links these building units together.

All construction is influenced by growth in population, and this is most pronounced in residential building—single dwellings, cottages, row housing, apartments and conversions. Of put-in-place construction in 1975, residential building at over $8 billion amounted to 53% of building construction and 30% of all construction.

The population as charted on page 24 is a compromise of several assumptions as to mortality, fertility and immigration and of many variables affecting household formation. It indicates that over the next 20 years Canada's population will continue to increase at a slightly lower percentage than the current rate. Meanwhile, the rate of increase in household formations can be expected to drop to something appreciably lower than at present.

Non-residential building

In the current concern with energy and conservation, architects and structural engineers are weighing carefully the energy efficiency of the buildings they design.

The inherent insulating qualities of concrete have thus become one of its more important attractions as a building material, and have enchanced its appeal to building owners. It is being used increasingly for the exterior of both low- and high-rise residential, commercial, industrial and public buildings, as well as in its more traditional role for the structural frame or skeleton of buildings.

Considerations of fire safety are encouraging wider use of concrete for schools, hotels and hospitals.

Those who have watched concrete buildings rise to greater heights in recent years should know that this is due in large part to the development of lightweight concrete. Using lighter aggregates, this concrete also offers much improved insulating and acoustical qualities.

The expanding use of precast concrete building units made in factories has helped make construction as uncomplicated as traditional uses of lumber, steel, clay brick and other materials. It is frequently much more economical. One customer of the Company is manufacturing precast room sections for schools and hospitals that have all wiring and piping in position for assembly and hookup on site.

By using imaginative forming techniques at job sites, panels are now prepared for apartment buildings using ready mixed concrete as opposed to precast panels shipped at additional expense from a plant. Large concrete panels can be preformed in this way using the tilt-up method, which, as its name implies, involves the fabricating and raising of large wall sections on the site.

One of concrete's most attractive attributes, for sculptors as much as for architects, is its ability in its plastic state to be shaped to almost any form—from massive piers to support high-rise buildings to delicate ornamental grillwork to enclose gardens and patios.

Surface definitions can be accomplished from smooth, ceramic-like finishes to rough shapes resembling quarried stone or even the grained texture of wood.

Now coming into use are cements that represent technical advances barely contemplated a few years ago—cements with setting times that can be controlled from 15 minutes to an hour or more, as well as coloured cements.

Opposite page: Lake Ontario Cement researchers recommended use of lightweight aggregates to achieve a weight reduction in the concrete for the Harbour Castle Apartments in Toronto.
1. Both cast-in-place concrete and concrete masonry are used to advantage in construction of the Hotel Triumph, Toronto.
2. Long double-T spans of prestressed concrete as used in bridge construction provide horizontal support for the parking garage at Sherway Gardens shopping centre.
3. Custom masonry units were produced by Primeau Argo Block to achieve the rounded corners of the Milton Agricultural Museum.
4. This cast concrete stairway has a bush hammer finish giving it a chipped effect. It is at the Hazelton Lanes multi-use boutique, restaurant and luxury apartment complex in Toronto.
5. A combination of split rib masonry units and standard rib units made with white dolomite aggregates was the choice of the architect for Jefferson Public School.

3

4

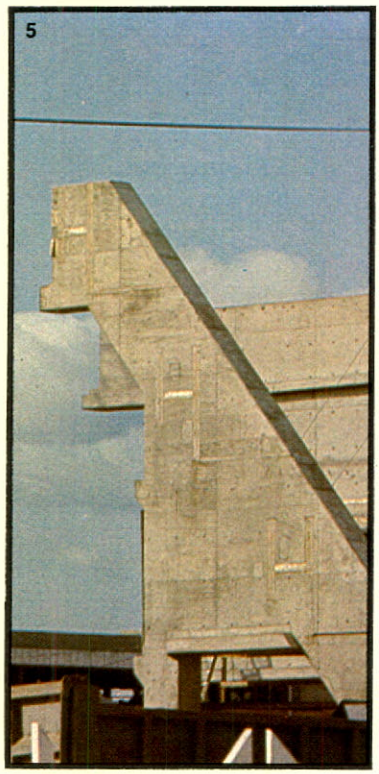
5

1

2

3

Concrete in engineering–growing stronger with age



Opposite page: The Municipality of Metropolitan Toronto supervised closely the expansion of the Canadian National Exhibition Stadium, which utilized a large quantity of cast-in-place concrete.
1. These reinforced concrete columns will carry frequent subway train traffic when the Spadina extension of the Toronto service is completed.
2. & 4. Post-tensioned precast concrete beams can cover wide spans and carry heavy traffic as in these highway bridges.
3. Concrete is spun in a revolving steel mould to shape this lamp standard. It is strengthened with light steel reinforcing.
5. The concrete used in these vertical supports for the Toronto International Airport parking garage was cast in place.

Under test are expansive cements that are intended to prevent detrimental cracking and eliminate unsightly construction joints.

Looking to the future, the trend toward apartment living should be beneficial to cement producers. It is estimated that high-rise apartment buildings consume two-thirds more cement per dollar of construction than do single family dwellings.

Heavy engineering

Most of us accept the fact that concrete cannot burn or rot and that it is inherently weatherproof. One fact not so widely known is that it is the only construction material which actually grows stronger with age, due to the continuing hydration of the portland cement that is its vital ingredient.

Far from providing a static product in terms of its qualities, the cement industry is enjoying the benefits of technology that is keeping it in step with the needs of the marketplace.

A good example is the extremely dense concrete developed for such new applications as the protective shields at nuclear power plants. Similarly, special concretes have been developed to meet a wide range of environmental needs.

The technology that has contributed to increased use of concrete in heavy engineering projects has also enhanced its use in endeavours to protect the environment—in terms of safety, noise shielding, energy conservation, water resources, sewage disposal, and more.

All open new marketing opportunities for this age-old material with nuclear era qualities.

Aside from traditional projects like foundations, dams and similar structures, perhaps the most exciting areas of heavy engineering use of concrete today are in transportation—highways, airports and rail transit systems in particular.

Concrete median barriers are being specified increasingly as highway authorities become aware of their low maintenance performance and the fact that they seem to reduce the severity of road accidents.

Also on highways and expressways, we see increasing use of concrete shoulders which cut maintenace costs and concrete roadways with various surface textures on overpasses and ramps which ensure safe tire adhesion in freezing weather. Slip-forming methods of concrete paving have for several years now been recognized as much more economical—and faster—than the steel-form systems used for decades earlier.

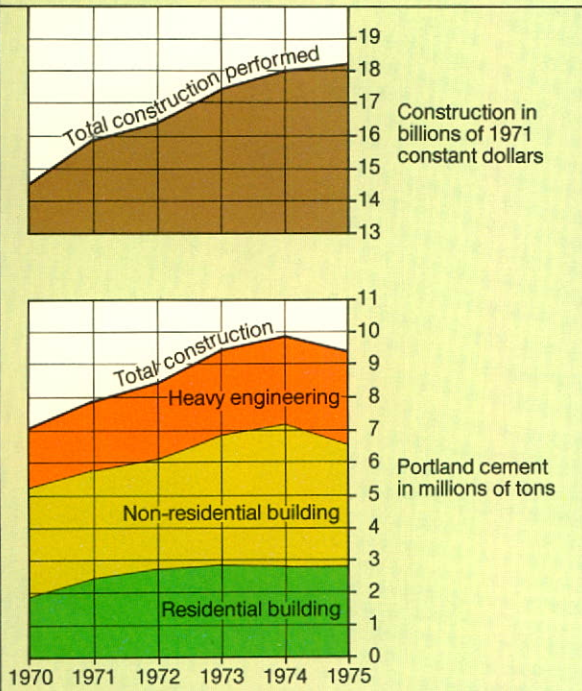
One major Canadian railroad has embarked on a large program to produce concrete crossties to replace increasingly expensive and scarce timber ties. In inter-city and urban rail services, continuous slab rail support systems are being installed to replace aging steel and wood structures, and most rapid transit systems in large cities depend on concrete structure for track support and passenger facilities. There is no doubt that transportation facilities will continue to consume enormous quantities of concrete to meet population increases and the growth in traffic that they generate.

The use of prestressed and post-tensioned concrete has permitted large open areas to be spanned that previously were almost entirely the domain of steel construction.

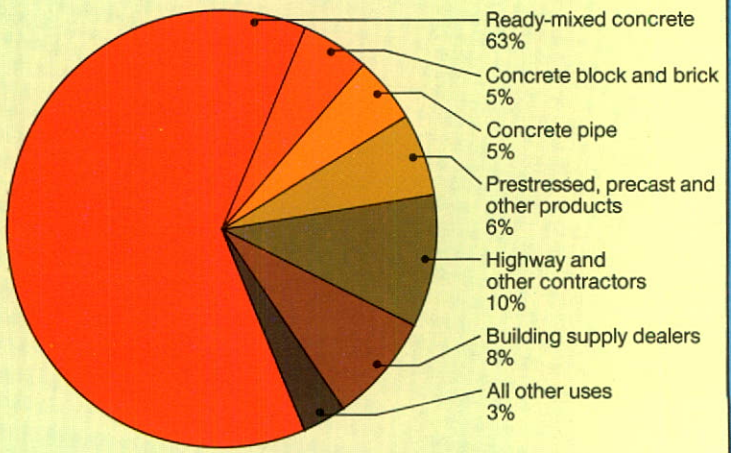
The energy requirements of more Canadians, too, will dictate the need for added power generating facilities. Pollution control requirements will necessitate large sewage treatment centres.

Cement consumption and construction

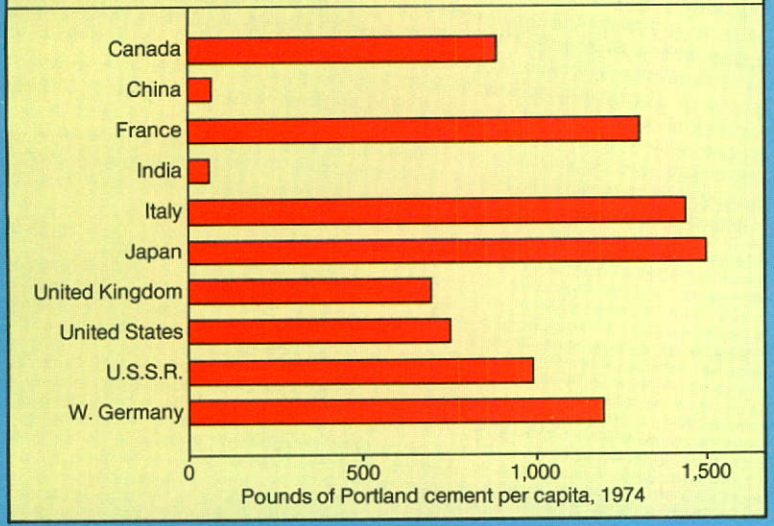
Canada: Portland cement consumption in construction



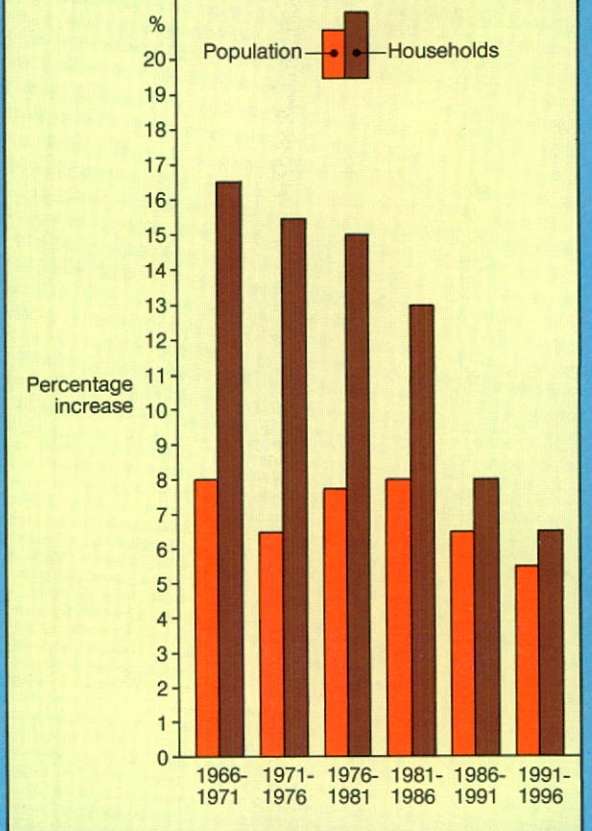
Portland cement use by customer industries, Canada and U.S.A. 1975



Portland cement consumption by country



Canada: projected increases in total population and households, 1966-96



Sources: Portland Cement Association, Statistics Canada, Cembureau, U.S. Census Bureau, U.S. Bureau of Mines.

PRINTED IN CANADA