



**Lake Ontario Cement Limited**  
and Subsidiary Companies

## Annual Report 1975



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# Lake Ontario Cement Limited

## Lake Ontario Cement



Canada



Premier Concrete Products



Ryancrete-Sterling Products



Primeau Argo Block

United States



Rochester Portland Cement



Mohawk Valley Cement



Cayuga Cement

## Directors

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

Charles F. W. Burns—Toronto, Ontario  
Chairman, Burns Bros. and Denton Limited

Edward P. Curtis, Jr.—Rochester, New York  
Consultant, Rochester Institute of Technology

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

Basil H. Hall—Toronto, Ontario  
Municipal Consultant

E. Bruce McConkey—Toronto, Ontario  
Vice-President, Finance,  
Denison Mines Limited

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

John A. Mullin, O.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

## 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, Assistant Secretary and  
Corporate Controller

C. A. Gibbs, Assistant Treasurer

## Head Office

2 Carlton Street, Toronto, Ontario

## Subsidiaries

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.



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### **Sales and earnings up**

**Page 2**

Sales exceeded \$41 million and operating earnings reached a new high, equal to 77 cents per share.

### **Company positioned for growth**

**Pages 3-5**

Capital expenditures of \$30 million in the last three years have positioned the Company to serve market growth in both Canada and the United States, once economy steadies on upward climb.

### **New kiln helps control costs**

**Pages 6-7**

Picton's new pre-heater kiln system uses one-third less fuel and provides the Company with one of the lowest cost cement manufacturing operations in North America.

### **Distribution a major cost**

**Pages 8-9**

The high cost of transporting a heavy bulk product to market dictates maximum effort to achieve efficient water/rail/truck system. Map shows extent of Company operations.

### **How cement is made**

**Pages 10-11**

Manufacture of cement is a four-step process, shown in diagrams and photos in the centrespread of this report.

### **Consolidated financial statements**

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*The 1975 year was one of almost continual construction activity as the Company expanded its production facilities at Picton. The adjoining sequence was taken in December as a helicopter positioned one of six tall stacks on the mill building as part of the improvements to the environmental control system. Capital expenditures in the last three years, mainly to provide new kiln and roller mill systems at Picton, total \$30 million.*



## Financial highlights

Year ended December 31  
1975 1974

Sales	\$41,832,857	\$39,398,521
Net earnings before extraordinary item	\$ 3,324,809	\$ 2,998,011
Extraordinary income	\$ —	\$ 482,226
Net earnings for the year	\$ 3,324,809	\$ 3,480,237
Earnings per common share before extraordinary item	77.3¢	69.7¢
Earnings per common share	77.3¢	80.9¢
Dividends per common share	15.0¢	12.0¢
Funds generated from operations	\$ 7,770,147	\$ 7,467,094
Capital expenditures	\$15,434,442	\$ 6,723,986
Working capital	\$ 2,393,232	\$10,339,882
Long-term debt (including amounts due within one year)	\$15,822,044	\$15,945,844
Shareholders' equity	\$30,061,797	\$27,362,663
Equity per common share (after full provision for deferred income taxes)	\$ 6.07	\$ 5.45

## Review of quarterly sales and earnings (excluding extraordinary items)

	Net sales \$ thousands		Net earnings \$ thousands		Net earnings ¢ per share	
	1975	1974	1975	1974	1975	1974
1st quarter	5,063	5,471	(335)	(285)	(7.8)	(6.6)
2nd quarter	10,901	11,757	1,136	1,183	26.4	27.5
3rd quarter	14,729	12,908	1,729	1,476	40.2	34.3
4th quarter	11,140	9,263	795	624	18.5	14.5
	41,833	39,399	3,325	2,998	77.3	69.7

1974 earnings figures have been restated to reflect income from a legal settlement (Note 10).



## Report to shareholders

It gives me a great deal of pleasure to report, on behalf of the Board of Directors, that the Company achieved record sales and operating earnings in 1975—a continuation of the growth trend demonstrated over the past five years. It was gratifying that the Company could more than hold its own in terms of total sales and profitability in the face of the reduction in residential construction and generally depressed economies in both Canada and the United States.

While the Company's performance for the year 1975 was a record, it is important to mention to our shareholders and the public the concern we have about earnings in the existing inflationary environment. The earnings achieved by the Company were very encouraging in terms of historic performance, but their value in terms of current inflated dollars must be viewed with caution. Some segments of the public view increasing corporate profits as an act of irresponsibility, but they fail to realize that depreciation based on original costs is insufficient to provide the funds needed to replace older facilities and to install additional capacity to meet increasing product demands and to create jobs. The cost of upgrading and replacing facilities has risen at an extraordinary rate and far exceeds original cost. The additional funds needed must, therefore, come from earnings and borrowings and there is a limit to the amount a company can prudently borrow. Accordingly, new levels of earnings are needed to achieve the growth and the return on investment expected by our shareholders.

### Financial results

Consolidated sales totalled \$41,832,857—up 6% over the previous year's level of \$39,398,521. The volumes of shipments of cement, ready-mixed concrete, concrete block

and aggregates were at levels close to those achieved in 1974.

Consolidated net earnings for the year 1975 were \$3,324,809 (77.3¢ per share), an increase of 11% over the restated 1974 earnings level (before an extraordinary gain) of \$2,998,011 (69.7¢ per share). An extraordinary gain on the sale of land of \$482,226 increased the restated 1974 earnings level to \$3,480,237 (80.9¢ per share). Earnings have been restated to include pro-rated payments from a legal settlement in the after-tax amounts of \$575,000 for the year 1975 and \$255,000 for the year 1974.

### Operations—cement

The total volume of cement shipments to customers in our Ontario and New York State markets matched the peak manufacturing capability of the Picton plant in 1975. This capability was enhanced by the completion in 1974 of Phase I of our expansion programme, the addition of two new raw grinding mills, and was further increased in late 1975 by the addition of the new pre-heater kiln. The programme of ultimately doubling the productive capacity of the Picton plant continues to be a primary objective of the Company. The construction and installation of the pre-heater kiln and auxiliary equipment were performed at a capital cost within 10% of the original budget.

The new equipment is now working to build the clinker (semi-finished cement) inventory required to supply the first year of the three year clinker sale to Martin Marietta Corporation. Shipments are scheduled to commence with the opening of navigation in 1976.

While this expansion programme is extensive when compared to the total assets of the Company, it is increasingly evident that the addition of this fuel efficient equipment is most timely in view of the progressively higher cost of fuel and the increasing standards required for the protection of the environment. Fuel is the single



Stephen B. Roman    William M. Bateman  
Chairman                      President

largest cost factor in the manufacture of cement. Lake Ontario Cement's kilns are fired by natural gas and coal, either separately or simultaneously. Gas which cost 50¢ per thousand cubic feet in 1973 averaged 90¢ in 1975 and is expected to reach \$1.42 in 1976. Coal which cost \$14 per ton in 1973 is expected to be near \$40 per ton in 1976. Neither of these fuels will be controlled under the Anti-Inflation legislation. Coal is imported from the United States and there are no signs yet that Canadian coal will be available economically in Ontario in the near future.

### Operations—concrete products

The Concrete Products Division, consisting of ready-mixed concrete operations, concrete block manufacturing and sand and gravel operations, had a good year in terms of volume and productivity although prices were significantly depressed,





*Expansion at the Picton plant during 1975 is highlighted in this aerial photo showing the pre-heater tower in the final stages of construction. The three*

*existing kilns are in the centre foreground and the quarry which provides the plant's raw materials can be seen in the upper right corner.*

principally because the industry is operating at a low level as compared to capacity.

In August, Premier Concrete Products acquired the assets of R.V.K. Ready Mix Limited, a company with more than \$2 million in annual sales of ready-mixed concrete in the eastern half of Metropolitan Toronto. Additionally, a new ready-mixed concrete plant was opened in Oshawa and these two new operations will enable this Division to serve the construction requirements of the urban area bordering on Lake Ontario with greater efficiency.

One matter of concern is the rapid depletion of economic deposits of sand

and gravel in the Metropolitan Toronto region. The Concrete Products Division is presently operating a sand and gravel deposit northwest of Toronto which will be depleted in the near future. This Division has other properties in the Erin and Caledon areas and hearings are presently being held before the Ontario Municipal Board to obtain proper zonings and licenses for the opening of one of these properties for sand and gravel recovery. Because the hearings are not yet completed, we are unable to advise the shareholders as to the success of this application.

### **Capital expenditures**

The capital expenditure level of \$15,434,442 during 1975 was a record one for the Company and reflected the virtual completion of the expenditures related to the kiln installation. The Cement Division spent \$14,041,826 during the year, compared to \$6,205,135 in 1974, with the bulk of the 1975 expenditures being related to the pre-heater kiln installation. The Concrete Products Division spent \$1,392,616 in 1975, compared to \$518,851 in 1974. Major items of expenditure were new ready-mixed concrete delivery trucks, the purchase of the fixed assets of R.V.K. Ready Mix Limited and the construction of the new ready-mixed concrete batching plant in Oshawa. Capital expenditures in 1976 are budgeted at a much lower level in all divisions.

It is worth mentioning at this point that since 1970 the Company has spent some \$8 million on pollution control equipment. These expenditures have not improved the production capability of the Company, but rather have been made to protect the environment.

### **Financial position**

Lake Ontario Cement Limited had arranged in 1974 for the financing needed for the major cement manufacturing expansion programme of 1974, 1975 and 1976. New long-term financing was arranged in June 1974 with the replacement of a \$10,500,000 debenture with a twenty-year 9¾% debenture in the amount of \$15,500,000 and arrangements were made with the Company's bankers for the necessary operating line of credit.

The working capital position at the end of 1975 reflects the impact of the expansion programme with working capital decreased from the 1974 year-end level of \$10,339,882 to \$2,393,232. The Company's operating bank loan was \$8,500,000 at December 31, 1975, compared to a cash surplus position at December 31, 1974. While it is expected that the bank operating



loan will increase further in the spring of 1976, reflecting the heavy cash demand for clinker inventory build-up and the final payments on the expansion programme, the Company plans to have bank loans and working capital levels brought to a more normal position by the year end 1976.

### **Dividends**

Two semi-annual dividends totalling 15¢ per share for the year were declared and paid on the outstanding common shares of the Company compared to 12¢ paid in 1974. Dividends paid for the year amounted to \$645,370 compared to \$516,355 in 1974. In 1973, the Company paid its initial annual dividend of 10¢ per share and what had been hoped to be a programme of increasing dividends to provide the shareholders with a proper return on their investment has been directly affected by the Anti-Inflation legislation. Nevertheless, it is our understanding that the Company will be allowed to continue dividends at least at present levels for the first year of the Government programme of controls.

### **Anti-Inflation legislation**

Lake Ontario Cement Limited is one of those companies for which the Canadian Federal Government Anti-Inflation Act and its Regulations are mandatory. This programme of control over prices, profits, dividends and compensation was enacted late in 1975 and will result in the controlling of employee wages and company earnings.

At the time of writing this report the Regulations are being reviewed carefully by management, but it will be some time before their impact can be quantified. Nevertheless, we acknowledge the need for action by Government to control the rate of inflation.

### **Outlook**

We continue to regard the immediate business future with a mixture of confidence and concern. The Canadian economy generally trails that of the United States and while some economic indicators seem to be turning upward, improvements in our industry are difficult to forecast with precision. The amount of cement shipped represents current consumption of the product as customers do not carry long term inventories of cement.

In Ontario, statistics indicate that the tonnage of cement shipped by the cement industry in 1975 dropped by 12% from the 1974 level. Predictions made earlier in 1975 were that cement consumption would increase by 6% in 1976; however, the 1976 mid-year turning point anticipated earlier for the economy is undefined and recent events tend to suggest a reduced level of construction activity. Additionally, the Federal Government Anti-Inflation legislation and the Ontario Rent Control programme will undoubtedly have a short run negative effect on construction.

In the United States, our principal market is western New York State. Earlier estimates for the Company sales for 1976 were based on the historically low growth rate in this area. A new and disturbing factor has been introduced, however, by the financial crisis in New York City. This crisis is having a "ripple effect" and government expenditures will be reduced throughout the State with possibly adverse results for construction activity.

In spite of these seemingly negative factors, we still look forward to 1976 with considerable optimism. Lake Ontario Cement Limited is a unique Company, small compared to its major cement competitors, but with excellent resources and the capability now to expand its market area and increase its market share. Total sales in 1976 are expected to increase substantially, with

the increase coming primarily from clinker export sales. Shipments of cement and concrete products will increase somewhat and the year should be one in which the Company achieves a new level of operations and consolidates its position after a period of major facility expansion.

### **Directors**

In accordance with the by-laws of the Company, Mr. W. H. Evans resigned his post as Chairman of the Board on reaching the mandatory retirement age. Mr. Evans had been a Director of your Company since 1970 and was Chairman of the Board from 1971 until his retirement in 1975. He had a long and illustrious business career and his counsel in the deliberations of your Board are sorely missed. I am sure that all shareholders wish him well in his retirement.

We are fortunate indeed in the election of his successor, Mr. Stephen B. Roman, K.C.S.G., LL.D., who became a Director of your Company in February, 1974. Mr. Roman is Chairman of the Board and Chief Executive Officer of Denison Mines Limited and of Roman Corporation Limited and is a director of other prominent Canadian corporations.

The Board of Directors wishes to express its appreciation to the employees of the Company, who through their dedication and hard work made possible the excellent results for the year.

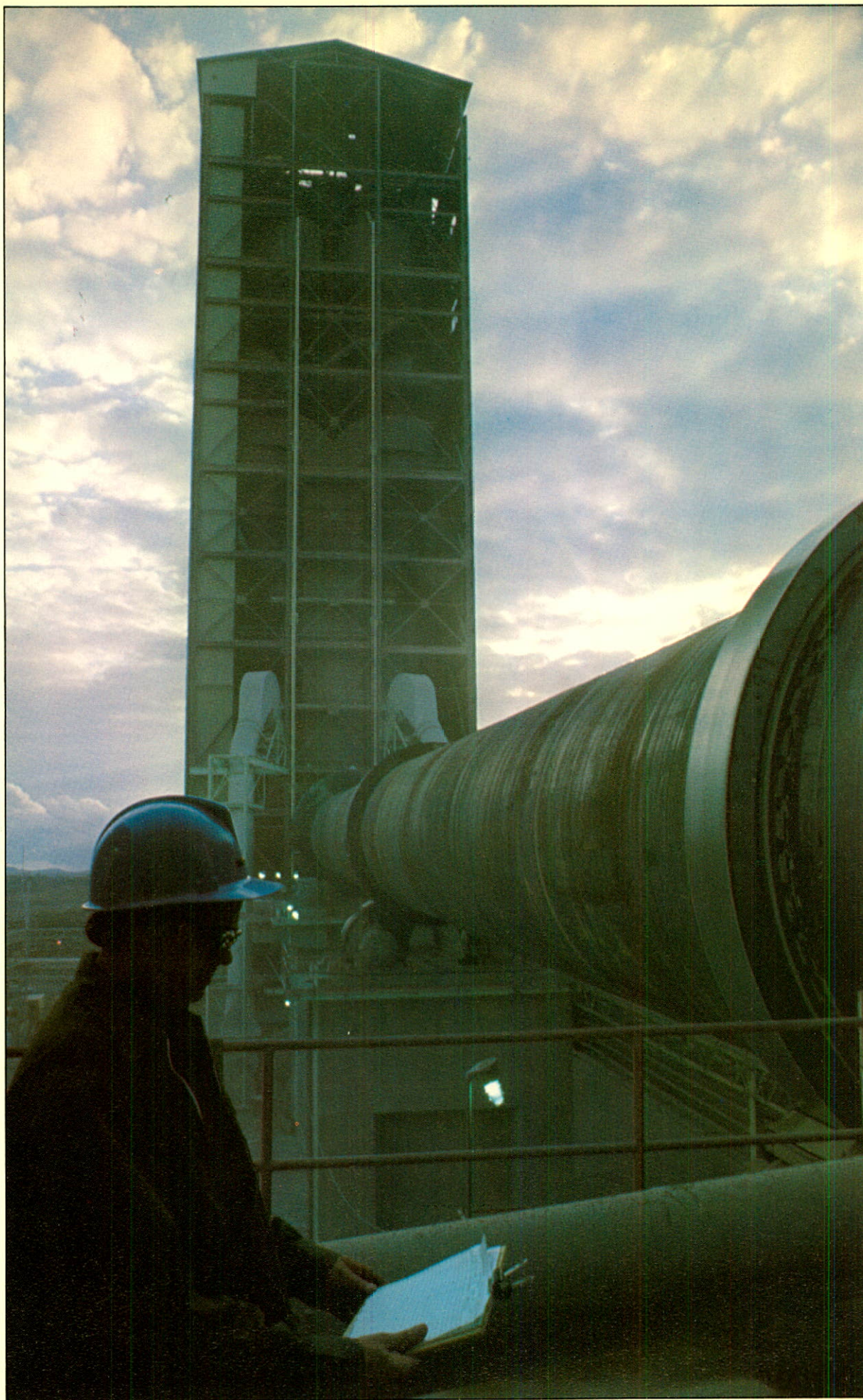


W. M. Bateman  
President

January 12, 1976

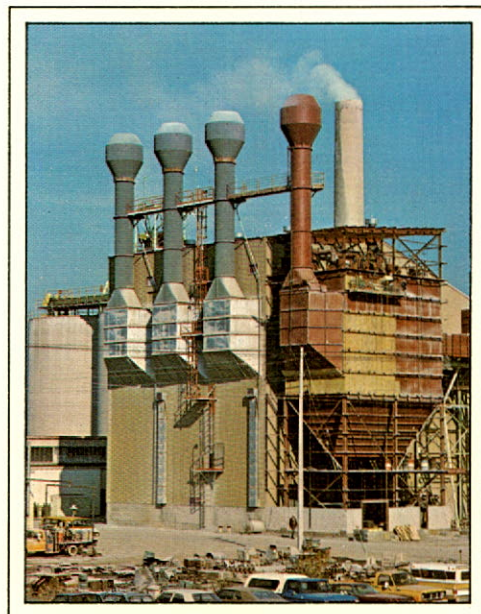


*Production from  
Picton's Number  
Four Kiln and  
pre-heater tower  
commenced  
October 30, 1975.  
Raw materials are  
fed through a  
descending series  
of cone-like  
vessels in the  
tower where they  
are pre-heated  
with waste heat  
from the kiln.  
The cylindrical  
kiln is 270 feet  
long by 17 feet  
in diameter and  
temperatures  
reach 2700°F  
(1500°C) during  
the burning  
process.*





## Completion of pre-heater kiln system helps control manufacturing costs at Picton



*An additional precipitator, to be operational early in 1976, is part of the \$8 million environmental control system at the Picton plant. This precipitator will help handle the increased volume of production required to fill the export contract with Martin Marietta Corporation.*

Completion of the new pre-heater kiln system at the Picton plant has given the Company one of the lowest cost cement manufacturing operations in North America.

The 850,000-ton-per-year system employs a four-stage suspension tower which uses waste gases from the rotary kiln to pre-heat the raw material feed before it enters the kiln.

Brought into operation late in 1975, the new kiln is achieving a one-third reduction in normal fuel requirements compared with the technology used in the plant's three older kilns.

In absolute numbers, the new pre-heater kiln produces cement for 32 therms, or 3.2 million B.T.U.'s per ton, as against the former standard of 48 therms per ton.

In terms of competitive position, and as the cost of fuel continues to escalate, Lake Ontario Cement is favorably placed to serve the growing cement requirements of Ontario and neighboring U.S. markets.

The pre-heater kiln is the second substantial fuel economy achieved by the Company during its staged expansion of the Picton plant. The new roller mill system, which went into operation in the spring of 1974, also uses waste heat from the kilns and results in much greater fuel efficiency.

Capital cost of the new roller mill and pre-heater kiln systems has been approximately \$22 million. The systems are designed for further expansion as the demand for cement production increases.

Completion of the 850,000-ton-per-year pre-heater kiln has doubled the capacity of the Picton plant to manufacture cement clinker, the semi-finished product which requires grinding with gypsum to make Portland cement. There is a large market for clinker, as well as cement, as demonstrated by the \$20 million clinker export contract which the Company has with Martin Marietta Corporation.

The three-year contract, largest ever signed by Lake Ontario Cement, will take up a substantial portion of Picton's expanded capacity, but leaves adequate capability to serve expected growth in the Company's traditional cement markets.

Picton's three existing kilns, which have been operating over their rated clinker capacity of 820,000 tons per year, can be phased in and out of production as required to supplement the new pre-heater kiln system.

The plant presently has sufficient grinding capacity to process clinker into more than 1.1 million tons of cement a year. Sales beyond that level will require additional grinding capacity.



**1** Loading cement at the deepwater dock adjoining the Picton plant, the MV Metis readies for another trip along Lake Ontario to supply Company terminals in Canada and the United States.

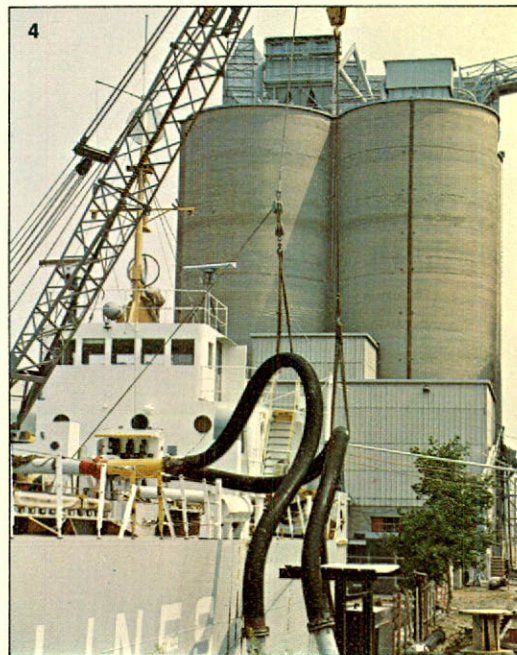
**2** The Metis and the MV Peerless (at left in middle photo) are two of the three lake vessels in full-time use by Lake Ontario Cement. They are pictured at Rochester, N.Y. The shallow draught MV Peckinpaugh can navigate the New York canal system to reach terminals at Rome and Ithaca.

**3** The Cement Division of Martin Marietta Corporation at Essexville, Michigan becomes a major export destination with the start (in April, 1976) of a three-year contract to supply \$20 million of clinker from the Picton plant. Clinker is a semi-finished product which can be hauled in self-unloading vessels. The same vessels can be used to carry coal on the return trip to Picton.

**4** Metropolitan Toronto is the Company's main market and the harbor terminals, largest in the

distribution system, have a storage capacity of 27,000 tons. The Toronto terminals supply the expanding operations of Premier Concrete Products, R.V.K. Ready Mix, and other cement users.

**5** Windsor is the most distant of the Company's terminals, approximately 440 lake miles from Picton. About 80 per cent of the production of the Picton plant moves by water.





## Distribution system geared to serve markets in Canada and United States

Efficiencies achieved in production must be matched in the distribution system. Clinker and cement are bulky, heavy products and the cost of getting them to market can represent as much as 50 per cent of the Company's total operating expenses.

The location of the Picton plant on deep, navigable water is the principal factor in providing competitive distribution. Economies are achieved through waterborne shipments to key distribution terminals, supplemented by rail and truck hauling.

Three lake vessels, one with shallow enough draught to navigate the New York State canal system, supply cement to terminals at Toronto and Windsor in Canada and Rochester, Rome and Ithaca in the U.S.A.

Additional bulk carriers, with self-unloading equipment, will be used to carry clinker (a semi-finished product which requires grinding with gypsum to make cement) to the Martin Marietta cement plant at Essexville, Michigan on Lake Huron's Saginaw Bay.

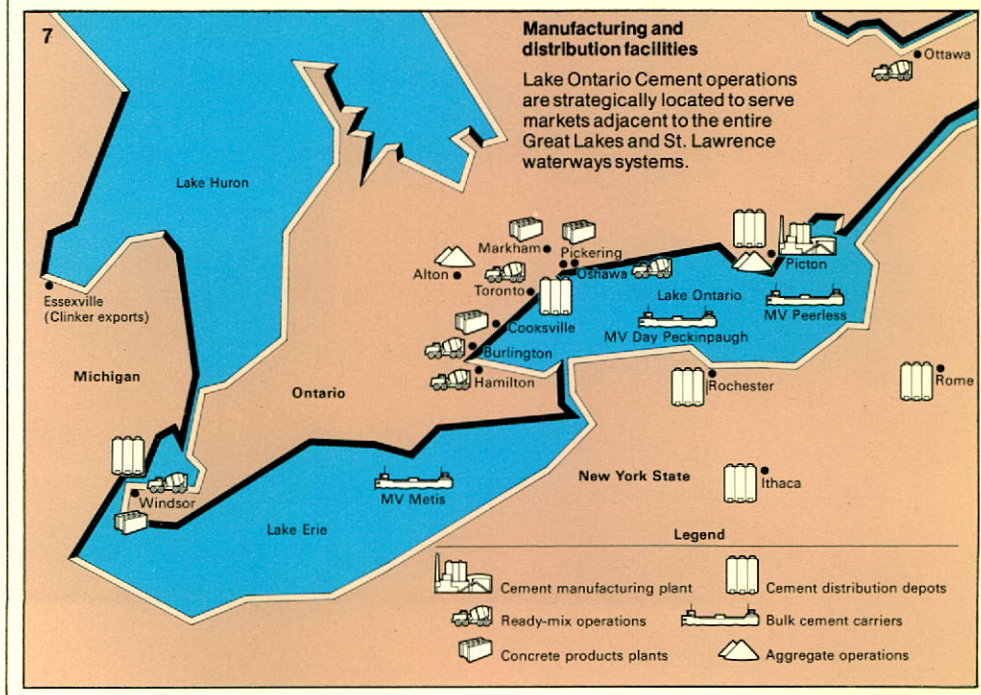
On the return trip, the same vessels will carry coal to meet part of the fuel requirements of the Picton plant.

Storage capacities at the Company's principal distribution terminals range from 27,000 tons at Toronto and Rochester to 8,000 tons at Windsor.

Principal users of this cement are the Company's own ready-mix concrete operations. The network of plants serving the Ontario market was further expanded in 1975 with the opening of a new Premier Concrete Products plant at Oshawa and the purchase of the assets of R.V.K. Ready Mix Limited, serving the eastern half of the Metropolitan Toronto market.

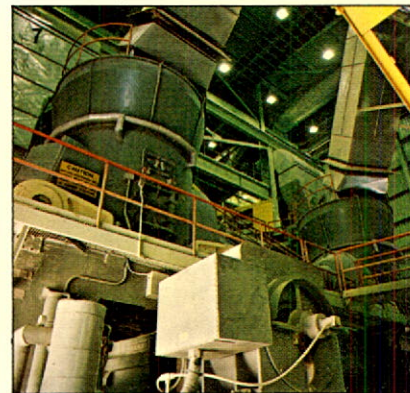
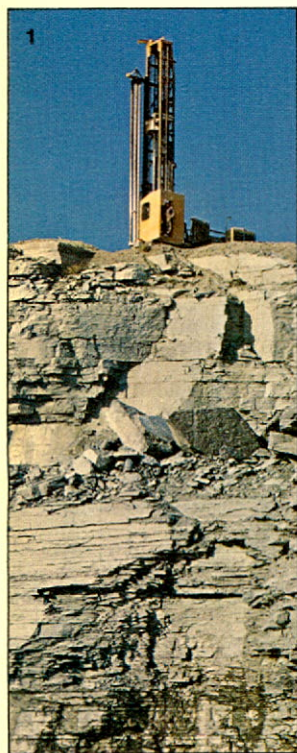
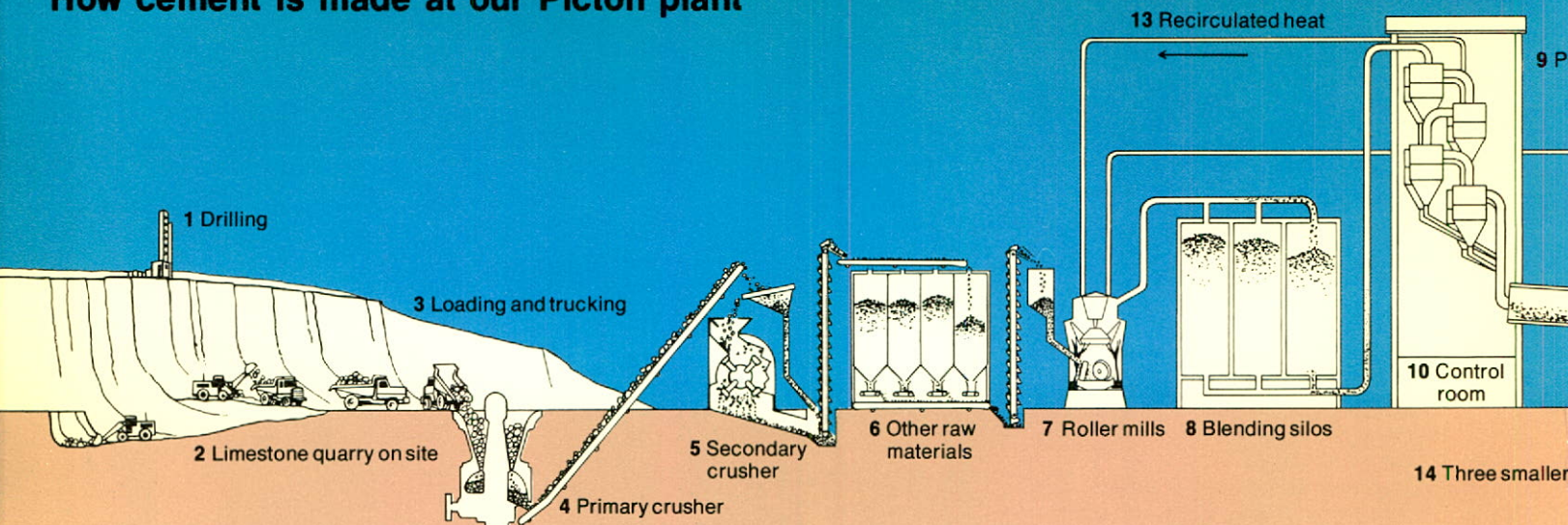
**6** Truck and rail carriers supplement the Company's waterborne shipments. The bulk highway carrier above is shown leaving the Toronto storage terminal.

**7** Added to the Company's operations map in 1975 was a new ready-mix plant at Oshawa.





# How cement is made at our Picton plant



## Step one: raw material recovery

Drills (1) and blasting break up the rock at a limestone quarry (2) on the site of the Picton plant. Front-end loaders and 35-ton trucks (3) are used to recover the limestone rock. Smaller quantities of sand, iron ore, silica and clay are also required.

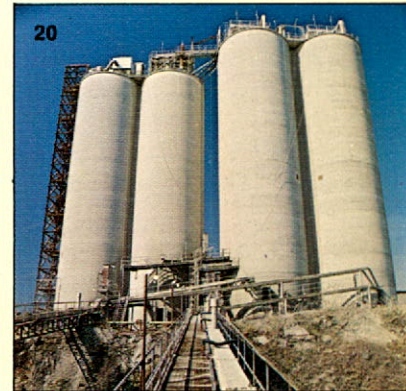
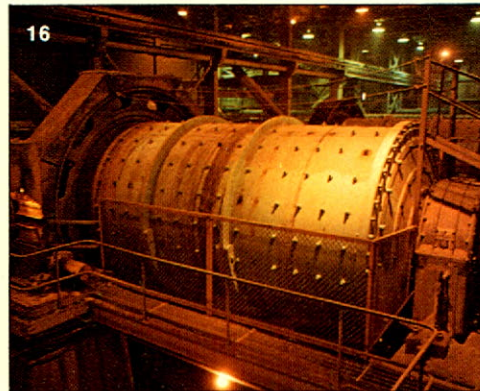
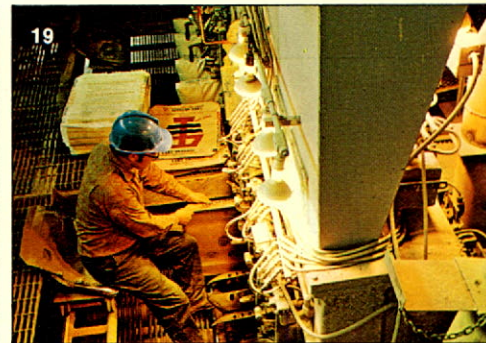
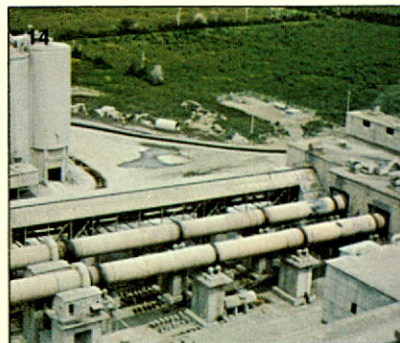
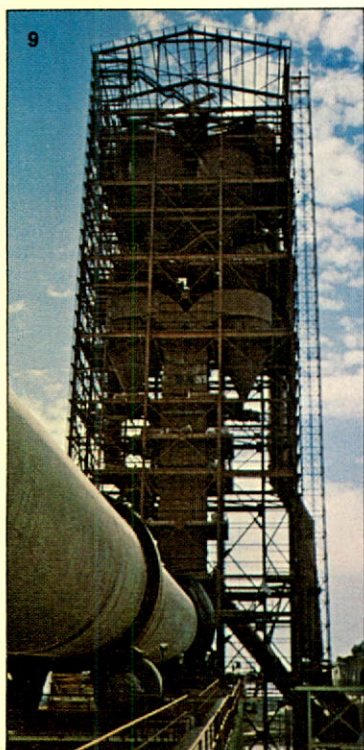
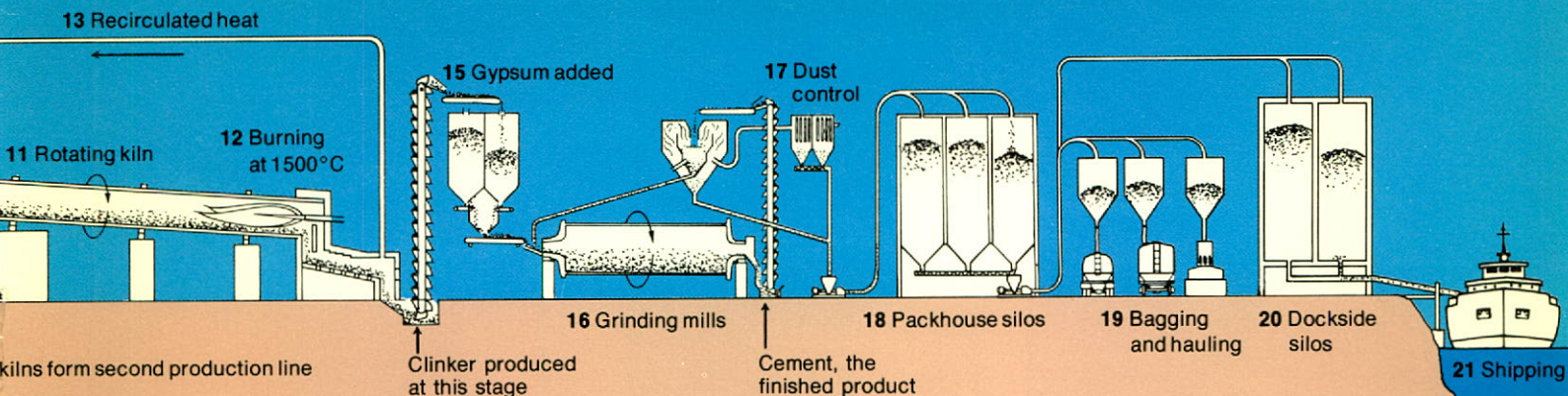
## Step two: crushing and grinding

A primary crusher (4) reduces the rock to 5-inch sizes and a secondary crusher (5) further reduces it. After crushing, the limestone must be mixed with other raw materials (6) in carefully-controlled proportions and fed to the Loesche roller mill system (7). This new system, installed in 1974 at a cost of \$5

million, combines in one system the raw materials grinding, drying and classifying step. Material from the roller mills flows into eight storage silos (8) for blending and temporary storage.



Pre-heater tower



### Step three: burning

This is the heart of the cement-making process. The finely-ground raw materials must be heated to temperatures of 2700°F (1500°C) in huge cylindrical steel rotary kilns lined with firebrick. Substantial fuel economies are achieved by pre-heating the raw material feed in a descending series of cone-like vessels (9). This pre-heater tower and its complex control equipment (10) feeds a new rotating kiln (11) 270 feet long and 17 feet in diameter.

Surplus heat from the kiln fire (12) is recirculated (13) to the vessels in the pre-heater tower and to the roller mills. The new pre-heater kiln system is supplemented by three smaller capacity kilns (14). The product at this stage is cement clinker for use in cement production and for the export market.

### Step four: finishing and shipping

Clinker must be ground with gypsum (15) in carefully-measured quantities to produce the finished product, portland cement. Seven grinding mills (16) are used for this process. Throughout the whole operation, dust collectors and precipitators (17) are part of an \$8 million environmental control system. Finished cement goes to either six packhouse silos (18) for bagging (19) and bulk shipments by truck and rail or to four dockside silos (20) for shipment by water (21) to Great Lakes ports.



# Lake Ontario Cement Limited

and subsidiary companies

## Consolidated balance sheet as at December 31

Assets	1975	1974
<b>Current assets</b>		
Cash	\$ 229,801	\$ 276,266
Short-term deposits	—	5,157,167
Accounts receivable	8,678,563	6,244,777
Current amount due on settlement of legal action (note 10)	900,000	900,000
Inventories (notes 1(c) and 2)	9,546,042	6,543,884
Mortgage receivable	—	523,450
Prepaid expenses	307,417	151,365
	<b>\$19,661,823</b>	<b>\$19,796,909</b>
<b>Amounts due on settlement of legal action and other items</b> (note 10)	<b>\$ 1,076,182</b>	<b>\$ 1,932,380</b>
<b>Investment in associated company</b> (notes 1(a) and 14)	<b>\$ 1,671,678</b>	<b>\$ 1,573,328</b>
<b>Fixed assets</b> (notes 1(d) and 3)	<b>\$48,206,620</b>	<b>\$35,603,702</b>
<b>Unamortized debenture expense</b> (note 1(e))	<b>\$ 132,329</b>	<b>\$ 147,415</b>
	<b>\$70,748,632</b>	<b>\$59,053,734</b>

## Auditors' report

### To the Shareholders of Lake Ontario Cement Limited

We have examined the consolidated balance sheet of Lake Ontario Cement Limited and its subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then

ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Lake Ontario Cement Limited and its subsidiary companies as at December 31, 1975 and the results of their operations and the

changes in their 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, 1976

**Coopers & Lybrand**  
Chartered Accountants



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**Liabilities****1975****1974**

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**Current liabilities**

Bank loan	<b>\$ 8,500,000</b>	<b>\$ —</b>
Accounts payable and accrued liabilities	<b>8,052,791</b>	<b>8,287,227</b>
Long-term debt due within one year (note 4)	<b>123,800</b>	<b>123,800</b>
Current portion of deferred cost reduction, before income taxes (note 10)	<b>592,000</b>	<b>1,046,000</b>
	<b>\$17,268,591</b>	<b>\$ 9,457,027</b>

**Deferred cost reduction, before income taxes** (note 10)**\$ —** **\$ 592,000****Long-term debt** (note 4)**\$15,698,244** **\$15,822,044****Deferred income taxes** (note 6)**\$ 7,720,000** **\$ 5,820,000****Shareholders' equity****Capital stock** (note 5)

Authorized—5,000,000 common shares, par value \$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)**166,018** **185,713****\$ 9,016,604** **\$ 8,996,909****Retained earnings** (notes 4 and 6)**21,045,193** **18,365,754****\$30,061,797** **\$27,362,663****\$70,748,632** **\$59,053,734**

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**Approved on behalf of the Board of Directors**W. M. Bateman, *Director*E. B. McConkey, *Director*



# Lake Ontario Cement Limited

and subsidiary companies

## Consolidated statement of earnings

for the year ended December 31

	1975	1974
<b>Sales</b>	<b>\$41,832,857</b>	<b>\$39,398,521</b>
Cost of sales (note 10)	31,468,775	30,154,970
Gross profit	<b>\$10,364,082</b>	<b>\$ 9,243,551</b>
Selling, general and administrative expenses	<b>\$ 3,687,831</b>	<b>\$ 3,152,338</b>
Gain on disposal of fixed assets	(110,857)	—
Interest on long-term debt	1,553,513	1,361,112
Other interest—net (note 7)	(7,864)	(272,324)
	<b>\$ 5,122,623</b>	<b>\$ 4,241,126</b>
<b>Operating profit</b>	<b>\$ 5,241,459</b>	<b>\$ 5,002,425</b>
Provision for income taxes		
Current	<b>\$ 145,000</b>	<b>\$ 220,000</b>
Deferred (note 6)	1,900,000	2,010,000
	<b>\$ 2,045,000</b>	<b>\$ 2,230,000</b>
Net earnings before income from investment and extraordinary item	<b>\$ 3,196,459</b>	<b>\$ 2,772,425</b>
Share of net income of associated company (note 1 (a))	128,350	225,586
<b>Net earnings before extraordinary item</b>	<b>\$ 3,324,809</b>	<b>\$ 2,998,011</b>
Extraordinary gain (note 8)	—	482,226
<b>Net earnings for the year</b>	<b>\$ 3,324,809</b>	<b>\$ 3,480,237</b>
<b>Net earnings per common share before extraordinary item</b>	<b>77.3¢</b>	<b>69.7¢</b>
<b>Net earnings per common share</b>	<b>77.3¢</b>	<b>80.9¢</b>



# Lake Ontario Cement Limited

and subsidiary companies

## Consolidated statement of retained earnings

for the year ended December 31	1975	1974
Retained earnings at beginning of year		
As previously reported	\$17,830,754	\$15,121,872
Prior years' cost reduction net of income taxes (note 10)	535,000	280,000
As restated	\$18,365,754	\$15,401,872
Net earnings for the year	3,324,809	3,480,237
	\$21,690,563	\$18,882,109
Dividends paid	645,370	516,355
Retained earnings at end of year	\$21,045,193	\$18,365,754

## Consolidated statement of changes in financial position

for the year ended December 31	1975	1974
<b>Source of working capital</b>		
Net earnings before income from investment and extraordinary item	\$ 3,196,459	\$ 2,772,425
Depreciation and depletion	2,769,459	2,669,528
Gain on disposal of fixed assets	(110,857)	—
Income taxes, deferred	1,900,000	2,010,000
Amortization of debenture expense	15,086	15,141
Current operations	\$ 7,770,147	\$ 7,467,094
Current amount due on settlement of legal action (note 10)	900,000	900,000
Dividends received	30,000	18,000
Proceeds on disposal of fixed assets (note 8)	172,922	810,326
Issue of 9¾% debenture—less expense	—	15,462,966
Other non-current amounts due	(43,802)	26,971
Receipts for common shares (note 5)	19,695	15,285
	\$ 8,848,962	\$24,700,642
<b>Application of working capital</b>		
Additions to fixed assets	\$15,434,442	\$ 6,723,986
Debenture redemption—net of current portion	—	9,917,000
Current portion of long-term debt	123,800	123,800
Current portion of deferred cost reduction, before income taxes (note 10)	592,000	1,046,000
Dividends paid	645,370	516,355
	\$16,795,612	\$18,327,141
<b>Increase/(decrease) in working capital</b>	(\$ 7,946,650)	\$ 6,373,501
<b>Working capital at beginning of year</b>	10,339,882	3,966,381
<b>Working capital at end of year</b>	\$ 2,393,232	\$10,339,882



## Notes to consolidated financial statements

for the year ended December 31, 1975

### 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, all of which are wholly owned.

The Company owns 50% of the equity of an associated company and accounts for its share of income from this investment by the equity method.

#### (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	2½% to 10%
Cement production equipment	5%
Machinery and other equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%

Construction-in-progress is not depreciated.

Land includes depletable quarries on which depletion is recorded on a unit of production basis.

Leasehold improvements are amortized on a straight-line basis over the term of the related leases.

#### (e) Unamortized Debenture Expense—

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

### 2. Inventories

Inventories consist of:

	1975 \$	1974 \$
Finished and semi-processed products	1,448,594	1,251,561
Raw materials and supplies	8,097,448	5,292,323
	9,546,042	6,543,884

### 3. Fixed assets

Fixed assets are comprised of the following amounts:

	1975 \$	1974 \$
<b>Cost</b>		
Land	2,887,228	2,884,564
Buildings, machinery and equipment	69,353,494	49,250,494
Construction-in-progress	162,593	5,471,138
	72,403,315	57,606,196
Accumulated depreciation and depletion	(24,196,695)	(22,002,494)
	48,206,620	35,603,702

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

	1975 \$	1974 \$
Depreciation	2,742,809	2,607,970
Depletion	26,650	61,558
	2,769,459	2,669,528

### 4. Long-term debt

The \$15,500,000 debenture is repayable 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 and by a pledge of the shares of a subsidiary. The agreement providing for the issue of this debenture and a subsequent amendment dated February 28, 1975, require that consolidated working capital be maintained at certain specified levels and restrict the payment of dividends 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, 1975 consolidated working capital and consolidated net tangible assets exceeded the specified amounts.

Interest on long-term debt is charged against earnings as incurred.

Long-term debt is comprised of the following amounts:

	1975 \$	1974 \$
9¼% secured Debenture due September 30, 1994	15,500,000	15,500,000
8% secured note payable on January 31, 1976	85,000	170,000
9% mortgage due August 29, 1977 payable on due date	143,444	143,444
8% mortgage due November 15, 1977 payable \$8,400 semi-annually	49,600	66,400
9% mortgage due December 29, 1977 payable \$5,500 quarterly	44,000	66,000
	15,822,044	15,945,844
Payable within one year	123,800	123,800
	15,698,244	15,822,044

### 5. Share purchase plan and stock options

#### (a) Share Purchase Plan—

Under the terms of the Share Purchase Plan for Key Executives, authorized and unissued common shares of the Company up to, but not exceeding, 200,000 shares in the aggregate may be allotted and issued to key executives. Shares are issued for a subscription price payable by way of a down payment and instalment payments extending over a period of not more than five 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, 1975, 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—**  
Under the terms of the Incentive Stock Option Plan, there were outstanding and exercisable as at December 31, 1975 options to purchase 10,000 shares at \$5.00 per share. In all cases, the option price was not less than 95% of the fair market value 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 this plan.

**(c) Other Option—**  
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, 1975. This option expires in 1979.

**(d)** At December 31, 1975, 14,000 common shares were reserved in connection with the Incentive Stock Option Plan and the Other Option.

## 6. Income taxes

**(a)** 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.

The total deferred income taxes to December 31, 1975 amounted to \$11,842,000 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 \$235,000 as a result of benefits arising from the federal government's current 5% investment tax credit programme.

## 7. Other interest—net

Other interest is comprised of the following amounts:

	1975 \$	1974 \$
Interest (income) on short-term deposits and other receivables	(339,420)	(319,178)
Less: Interest on bank loan	331,556	46,854
	(7,864)	(272,324)

## 8. Extraordinary item

In 1974 a sale of property for \$773,450 resulted in an extraordinary gain of \$482,226 net of related taxes of \$10,000.

## 9. Remuneration of directors and officers

During the year ended December 31, 1975 twelve directors received aggregate remuneration of \$41,373 as directors and seven officers, as defined in the Canada Corporations Act, four of whom are also directors, received aggregate remuneration of \$248,647 as officers.

Aggregate remuneration of directors and senior officers, as defined in the Ontario Securities Act, totalled \$302,934 during 1975.

## 10. Settlement of legal action

During the year, 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 the first instalment has been received.

The Company is accounting 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 are increased as follows:

	\$
Periods prior to 1974	280,000
1974	255,000
1975	575,000
1976	325,000
	1,435,000

Income to be taken into account in future periods appears on the balance sheet as deferred cost reduction, before income taxes.

## 11. Lease agreements

The Company has existing lease agreements, primarily for shipping facilities but also for land, building and equipment, the minimum annual aggregate rentals for which total approximately \$1,100,000.

## 12. Pension plans

Based on the most recent actuarial reports, unfunded past service liabilities amounted to \$548,805 at December 31, 1975. This amount is being expensed and funded over the next 15 years.

The total charge against operations in 1975 with respect to past service liabilities amounted to \$63,308 including interest.

## 13. Prices and income legislation

The Company is subject to restraint of profit margins, prices, dividends, and compensation of employees under the recent Federal Anti-Inflation Act and Regulations and to restraint under the proposed export levy, all with effect from October 14, 1975. The impact of this legislation is not presently subject to satisfactory determination because of uncertainties with respect to the application of the legislation. Management is of the opinion, however, that this legislation has no material adverse effect on the financial position or results of operations for the current year.

## 14. Subsequent event

The Company has agreed to acquire, subject to certain approvals, an additional 22½% of the outstanding common shares of the associated company referred to in note 1 (a) for a consideration of \$810,000. The consideration is to be paid as to \$202,500 on closing and the balance by 20 equal quarterly instalments, with interest on the outstanding balance at 9¼% per annum. The transaction is to be effective January 1, 1976 and is expected to close by January 31, 1976.



# Lake Ontario Cement Limited

and subsidiary companies

1966	1967	1968	1969	1970	1971	1972
\$20,839	\$19,542	\$20,931	\$21,736	\$22,617	\$26,443	\$27,338
16,825	15,298	15,674	16,651	18,246	20,576	20,926
\$ 4,014	\$ 4,244	\$ 5,257	\$ 5,085	\$ 4,371	\$ 5,867	\$ 6,412
\$ 1,819	\$ 1,981	\$ 2,071	\$ 2,164	\$ 2,198	\$ 2,273	\$ 2,348
		217	(87)			
754	1,149	1,209	1,174	1,084	987	1,098
\$ 2,573	\$ 3,130	\$ 3,497	\$ 3,251	\$ 3,282	\$ 3,260	\$ 3,446
\$ 1,441	\$ 1,114	\$ 1,760	\$ 1,834	\$ 1,089	\$ 2,607	\$ 2,966
988	621	845	805	555	1,292	1,440
\$ 453	\$ 493	\$ 915	\$ 1,029	\$ 534	\$ 1,315	\$ 1,526
139	69	95	112	34	109	121
						153
\$ 592	\$ 562	\$ 1,010	\$ 1,141	\$ 568	\$ 1,424	\$ 1,800
4,192	4,213	4,223	4,223	4,223	4,223	4,278
14.1¢	13.4¢	23.9¢	27.0¢	13.5¢	33.7¢	42.1¢
\$ 2.71	\$ 2.84	\$ 3.08	\$ 3.35	\$ 3.48	\$ 3.82	\$ 4.23
\$ 453	\$ 493	\$ 915	\$ 1,029	\$ 534	\$ 1,315	\$ 1,526
988	621	845	805	555	206	180
1,406	1,773	2,123	1,854	2,040	2,080	2,110
\$ 2,847	\$ 2,887	\$ 3,883	\$ 3,688	\$ 3,129	\$ 3,601	\$ 3,816
	230			625	10,340	353
168	64	31				2
\$ 3,015	\$ 3,181	\$ 3,914	\$ 3,688	\$ 3,754	\$13,941	\$ 4,171
\$ 4,265	\$ 2,179	\$ 1,330	\$ 1,957	\$ 1,206	\$ 1,381	\$ 2,758
1,652	1,909	1,897	98	98	6,600	239
				82	200	228
74	(30)	336	(36)	29	(69)	(24)
\$ 5,991	\$ 4,058	\$ 3,563	\$ 2,019	\$ 1,415	\$ 8,112	\$ 3,201
(\$ 2,976)	(\$ 877)	\$ 351	\$ 1,669	\$ 2,508	\$ 5,829	\$ 970
(\$ 4,028)	(\$ 4,905)	(\$ 4,554)	(\$ 2,885)	(\$ 546)	\$ 5,283	\$ 6,253



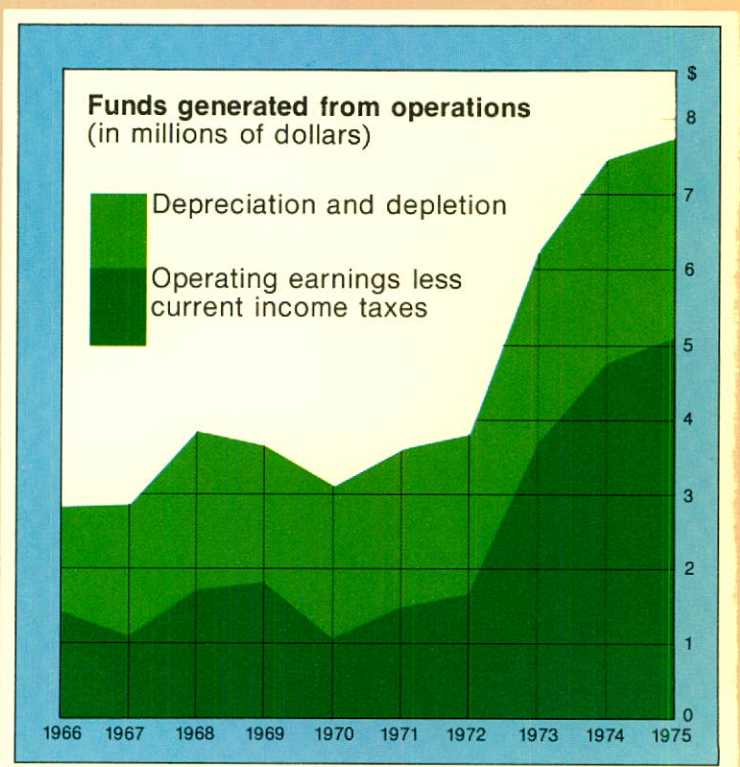
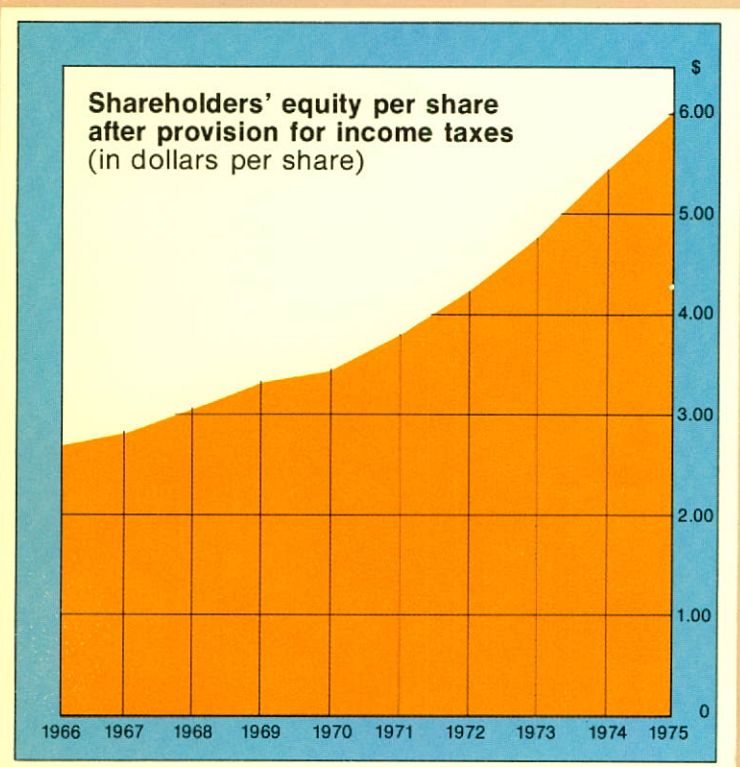
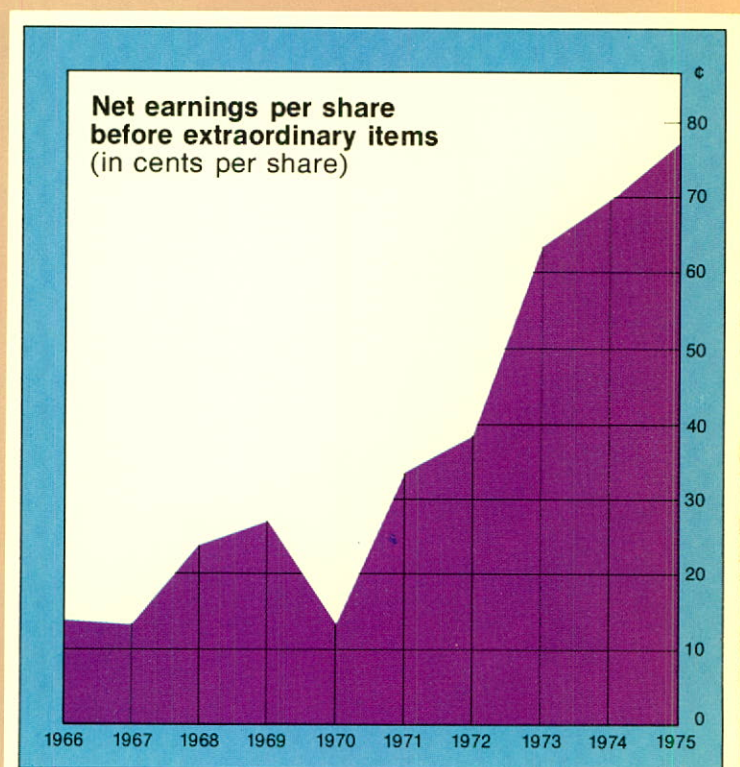
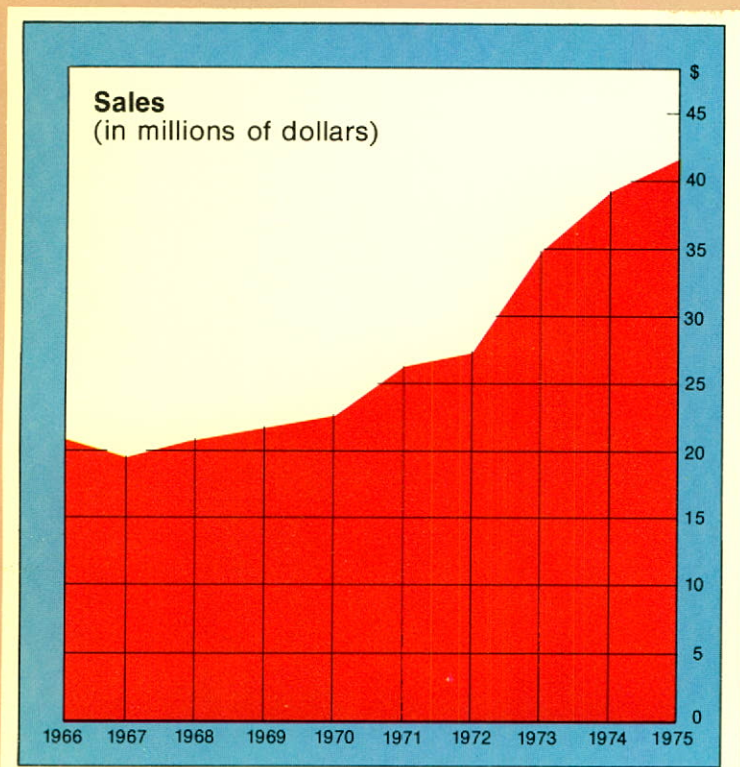
## Ten year financial summary

Figures in thousands, except amounts per share

1973	1974	1975	
			<b>Operating results</b>
\$34,883	\$39,398	\$41,833	Sales
26,483	30,155	31,469	Cost of sales
\$ 8,400	\$ 9,243	\$10,364	Gross profit
\$ 2,758	\$ 3,152	\$ 3,688	Selling, general and administrative expenses
188		(111)	Net loss/(gain) on disposal of fixed assets
1,124	1,089	1,545	Interest on borrowed funds (net)
\$ 4,070	\$ 4,241	\$ 5,122	
\$ 4,330	\$ 5,002	\$ 5,242	Operating profit
1,818	2,230	2,045	Full provision for current and deferred income taxes
\$ 2,512	\$ 2,772	\$ 3,197	Net earnings before income from investment and extraordinary item
213	226	128	Investment income on equity basis—before extraordinary item —extraordinary item
	482		Extraordinary gain on disposal of property
\$ 2,725	\$ 3,480	\$ 3,325	Net earnings for the year
4,302	4,302	4,302	Number of common shares outstanding
63.3¢	80.9¢	77.3¢	Earnings per common share (including extraordinary item)
10.0¢	12.0¢	15.0¢	Dividends per common share
\$ 4.76	\$ 5.45	\$ 6.07	Equity per common share (after full provision for deferred income taxes)
			<b>Source of working capital</b>
\$ 2,512	\$ 2,772	\$ 3,197	Net earnings before income from investment and extraordinary item
1,223	2,010	1,900	Income taxes, deferred
2,495	2,685	2,673	Depreciation and other non-cash items (net)
\$ 6,230	\$ 7,467	\$ 7,770	
	900	900	Current amount due on settlement of legal action
18	18	30	Dividends received
	15,463		Proceeds from long-term debt
18	15	20	Issue of common shares
\$ 6,266	\$23,863	\$ 8,720	
			<b>Application of working capital</b>
\$ 6,983	\$ 5,913	\$15,262	Additions to property, plant and equipment (net)
707	10,041	124	Reduction in long-term debt
465	1,046	592	Current portion of deferred cost reduction, before income taxes
(30)	(27)	44	Other non-current items
428	516	645	Dividends paid on common shares
\$ 8,553	\$17,489	\$16,667	
(\$ 2,287)	\$ 6,374	(\$ 7,947)	Increase/(decrease) in working capital
\$ 3,966	\$10,340	\$ 2,393	Working capital (deficiency)



# Financial trends at a glance





# 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

## 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

## Wholly-Owned Subsidiary

### Rochester Portland Cement Corp.

361 Boxart St., Rochester, New York 14612

Divisions:

Mohawk Valley Cement Company  
Cayuga Cement Company

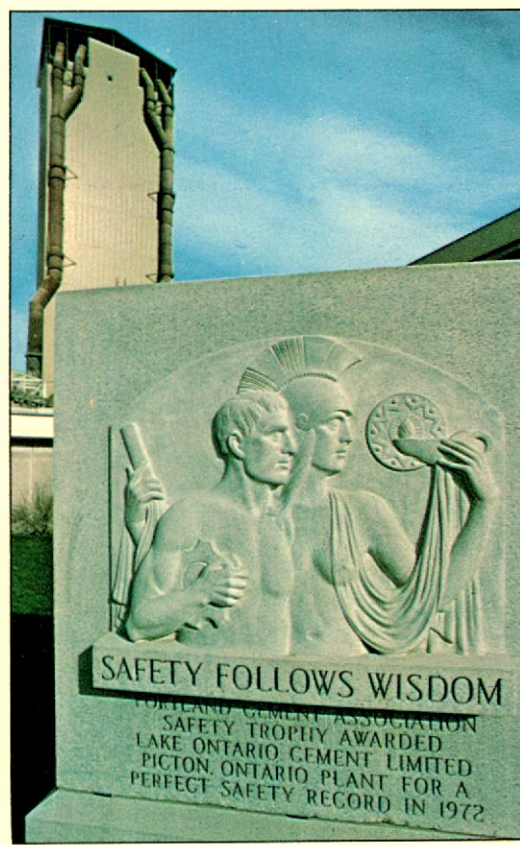
W. M. Bateman, Chairman of the Board  
R. L. Forde, President  
J. D. Fowler, Vice-President  
D. R. T. White, Vice-President Finance  
and Secretary-Treasurer  
W. H. Ingmire, Sales Manager

## Associated Company

### Primeau Argo Block Co. Limited

170 Brockport Drive, Rexdale, Ontario

A. J. Primeau, President  
R. H. Grimm, Executive Vice-President  
and General Manager  
W. A. Primeau, Vice-President and  
Operations Manager  
W. C. Coupland, Secretary-Treasurer



*The achievements noted in this report result from the combined efforts of 750 employees of Lake Ontario Cement Limited and its subsidiary and associated companies.*



