Lake Ontario Cement Limited
and Subsidiary Companies

Annual Report 1979

Lake Ontario Cement Limited

"I really like concrete. It's the marble of our time—the stone of our century—and it's a natural material of the earth."

—noted Canadian architect Arthur Erickson quoted in The New Yorker.

Head Office

2 Carlton Street, Toronto, Ontario

Subsidiaries

Aetna Cement Corporation, Essexville, Michigan

Primeau Argo Block Co. Limited, Rexdale, Ontario

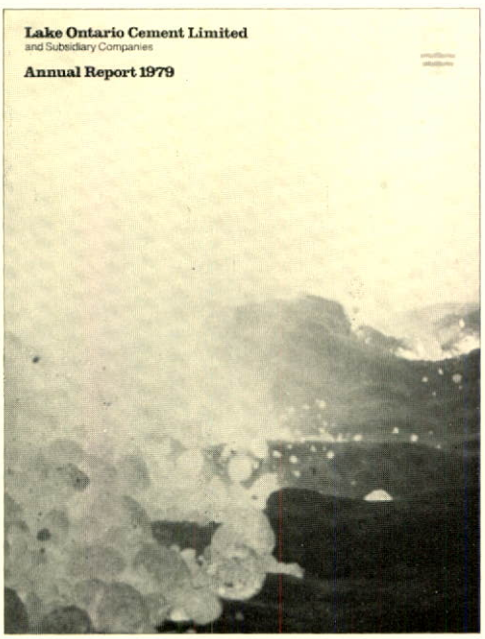
Rochester Portland Cement Corp., Rochester, New York

Auditors

Coopers & Lybrand, Toronto, Ontario

Transfer Agent and Registrar

Guaranty Trust Company of Canada, Toronto, Ontario



Cover: Pieces of clinker take on a fiery glow of their own as they tumble about in the new pre-heater kiln at the Company's cement manufacturing plant at Picton, Ontario. The kiln began operation in 1975 and is 30% more efficient in its use of energy than the older kilns. Kiln temperatures reach 1400°C.

Summary of contents

Financial highlights

for the year ended December 31	1979	1978
Operating results		
Sales	**$88,317,149**	$78,363,743
Net earnings before extraordinary items	**4,943,462**	3,149,910
Extraordinary items	**950,000**	—
Net earnings for the year	**5,893,462**	3,149,910
Earnings per common share before extraordinary items	**1.15**	0.73
Earnings per common share	**1.37**	0.73
Dividends paid	**1,507,261**	860,492
Dividends per common share	**0.35**	0.20
Funds provided from operations	**9,326,231**	7,116,283
Expenditures for fixed assets	**5,127,951**	3,132,090
Depreciation and depletion	**4,055,996**	3,936,505
Financial position as at end of the year		
Current assets	**$32,681,270**	$29,149,854
Current liabilities	**14,177,859**	12,314,010
Working capital	**18,503,411**	16,835,844
Long-term debt (including amounts due within one year)	**20,724,035**	22,027,849
Shareholders' equity	**38,694,656**	34,288,455
Shareholders' equity per common share (after full provision for deferred income taxes)	**8.03**	7.01

Quarterly sales and net earnings

(dollars in thousands except per share)

	Sales		Net earnings or (loss)		Net earnings or (loss) per share	
	1979	1978	**1979**	1978	**1979**	1978
1st quarter	**$ 7,721**	$ 7,624	**$(2,291)**	$(1,409)	**$(0.53)**	$(0.33)
2nd quarter	**25,724**	24,388	**2,495**	1,580	**0.58**	0.37
3rd quarter	**31,798**	26,881	**3,019**	2,051	**0.70**	0.48
4th quarter	**23,074**	19,471	**1,720**	928	**0.40**	0.21
	$88,317	$78,364	**$ 4,943**	$ 3,150	**$ 1.15**	$ 0.73
Extraordinary items	**—**	—	**950**	—	**0.22**	—
	$88,317	$78,364	**$ 5,893**	$ 3,150	**$ 1.37**	$ 0.73

Report to shareholders

Stephen B. Roman, Chairman of the Board

On behalf of the Board of Directors of Lake Ontario Cement Limited, it gives me a great deal of pleasure to report to the shareholders on the activities of the Company for the year ended December 31, 1979 and to present the Company's Annual Report for the year.

In particular, I am pleased to report that in 1979 the Company achieved new records in both sales and earnings. Sales increased to $88,317,149 and net earnings excluding extraordinary items reached $4,943,462 ($1.15 per share). It is interesting to note that it was 20 years ago that the Company had its first full year in the production and sale of cement. Net sales in 1959 amounted to $4.2 million and cement production at the Picton plant was approximately 250,000 tons. In 1979, sales totalled almost $90 million and cement production at the Company's two plants in Ontario and Michigan was about 1,250,000 tons. The Company has substantial cement operations in Ontario, Western New York State and Michigan and, in addition, is engaged in the ready-mixed concrete, concrete block and brick and aggregate businesses in Ontario. The Company's growth reflects the foresight of its founders and the hard work of its employees, management and directors as well as the support and loyalty of its shareholders, suppliers and customers. The Board of Directors and management of the Company are optimistic about the business opportunities currently available and are determined that the Company will take advantage of them.

Financial results

Consolidated sales for the 12 months ended December 31, 1979 were the highest ever at $88,317,149, an increase of 13% over the 1978 sales level of $78,363,743. Consolidated earnings for 1979 were $4,943,462 ($1.15 per share), an increase of 57% over the $3,149,910 ($0.73 per share) reported for 1978. These results were before extraordinary items of $950,000 in 1979 which increased the net earnings for the 1979 year to $5,893,462 ($1.37 per share). The extraordinary items relate to compensation received during the year in settlement of claims arising out of the failure of certain equipment supplied to the Picton cement plant and for the expropriation some years ago of a lease of Company property by the Ontario Provincial Government.

The significant increase in earnings arises primarily from better selling prices and margins in the cement operations, improved manufacturing operations at the Picton cement plant and a favourable exchange rate on the Canadian dollar which enhanced the value of cement and clinker exports to the United States. The Concrete Products activities of the Company were, in general, slightly improved in 1979 by comparison with 1978.

Cement operations—marketing

Lake Ontario Cement manufactures clinker and cement at its Picton, Ontario plant and, through its Michigan subsidiary, Aetna Cement Corporation, grinds clinker into cement. Cement is sold in Ontario, Western New York State and Michigan and this geographical diversity gives the Company a relatively broad market and minimizes the impact of local fluctuations in construction activities.

Total volume of cement and clinker shipments in 1979 was slightly less than that achieved in 1978 but revenue increased because of improved selling prices. Ontario and Western New York State shipments were stable but Michigan shipments were adversely affected by the growing recession in the United States and, in particular, by the drop in automotive manufacturing activities. The shortages of cement which were experienced in 1978 did not occur in the Company's market areas in 1979 as there was a general reduction in total regional demand.

Cement operations—manufacturing

The Picton cement plant operated at its most effective level since the installation

of the preheater kiln in 1975. The addition of capital equipment during the year—particularly the supplemental secondary crushing system—enhanced production and the plant operated at close to effective capacity. The cement grinding facility at Aetna also operated effectively and still has some excess grinding capability.

Inflationary cost increases continue to plague the Company's operations and the cement industry in general, particularly in the areas of energy, fuel and labour costs. In 1979, hydro electric power costs increased by 11%, the price of natural gas rose by 19% and labour costs increased by 12%, all compared to 1978 levels. The increases forecast for these and other costs for 1980 appear to be even more inflationary and underline the need for adequate selling prices and profit margins if the industry is to generate the funds needed for modernization and expansion.

Concrete products operations

The Premier Concrete Products Division has ready-mixed concrete operations at Windsor, Toronto, Hamilton, Oshawa and Ottawa, a concrete block plant at Windsor and an aggregate facility at Alton, Ontario. The market served by Premier is characterized by extreme variations in both shipment volumes and price levels reflecting the fluctuations in the Ontario construction industry and, in some areas, significant industry overcapacity.

Shipments of ready-mixed concrete and aggregates in 1979 declined from the levels achieved in 1978 while concrete block shipments were up because of a buoyant Windsor market.

While some operations within this division are profitable, others continue to have unsatisfactory results. Of particular concern are the operations in Metropolitan Toronto where depressed selling prices and low volume have generated inadequate margins in the ready-mixed concrete business. The Company is committed to improving the performance in this area.

During 1980, Premier will commence work on its new Erin aggregate facility. The present Alton quarry will be depleted in the near term and the Erin facility is planned to come into production after the Alton plant is closed.

Primeau Argo Block Co. Limited

On January 7, 1980, the Company acquired the minority interest of its subsidiary company, Primeau Argo Block Co. Limited, for a cash consideration of $924,000. This subsidiary manufactures concrete block and concrete brick in three plants in the Metropolitan Toronto area.

While the management of Primeau Argo Block will continue in their present responsibilities, Mr. K. Bruce, Vice President and General Manager of the Premier Concrete Products Division, will assume overall direction for both Premier and Primeau Argo Block. There will now be a closer operating relationship between these two businesses, which will have a positive effect on their growth and profitability.

Dividends

Dividends paid in 1979 were $1,507,261 based on payments of 35¢ per share—15¢ paid in April, 1979 and 20¢ paid in October, 1979. These payments represent an increase of 15¢ from the 20¢ per share paid in 1978.

Financial condition

At the end of 1979, the Company's financial condition was sound. Working capital was $18,503,411—with current assets 2.3 times current liabilities—compared to $16,835,844 at the end of 1978. Long-term debt stood at $20,724,035—29.7% of total capital. This relatively strong financial position enables the Company to plan for future growth either through internal expansion or acquisition.

John D. Fowler, President

Ken Bruce, left, Vice-President and General Manager, Premier Concrete Products Division, J. A. Clarke, Manager of Operations, Canadian Cement Division, R. H. Grimm, President and Chief Executive Officer, Primeau Argo Block Co. Limited, and, standing, L. P. Finnegan, Plant Manager, Cement Manufacturing Plant.

I. M. MacLachlan, President, Aetna Cement Corporation, R. L. Forde, President, Rochester Portland Cement Corp., and G. R. Wilson, General Sales Manager, Canadian Cement Division.

Capital expenditures

During the year, the Company spent $5.1 million on capital programs. The principal expenditures were made at the Picton cement plant with $1.7 million spent on conditioning towers designed to improve environmental conditions and $1.0 million spent on a supplemental secondary crushing system.

Capital plans for 1980 are expected to total approximately $6 million and will include additional equipment at Picton, mobile equipment in both cement and concrete products operations and equipment for the expansion of concrete brick manufacturing facilities. Particularly significant in the 1980 program is the capital being invested in Picton to improve kiln efficiency and expand the use of coal rather than natural gas.

Outlook

The demand for cement and concrete depends largely on the prevailing level of construction activity which, in turn, reflects both local and national economic conditions.

At the national levels, the prospects for both the Canadian and U.S. economies in 1980 have to be characterized as less than certain as they face high interest rates, increasing inflationary pressures and higher energy prices. The developing recession and general uncertainty cloud any forecast of construction activity and, accordingly, of cement consumption.

It is probable that the economic slowdown now underway in both countries will not be a repeat of the situation in 1975, when the construction-related industries in Eastern Canada went into a protracted decline and those in the U.S.A. suffered a severe slump. The recession in the mid-seventies followed a prolonged period of vigorous construction activity. Since then, construction work has been relatively depressed in the Company's major market areas and, accordingly, it is expected that any further decline in construction activity in 1980 will be quite modest. Although the market for new housing is expected to be mediocre on both sides of the border in 1980, some strength may be provided by the construction activity associated with a recovery of capital spending by the manufacturing industry.

In the concrete products markets in Ontario, the expectations are for a year similar to that of 1979. Ready-mixed concrete margins and volume should be roughly the same although still at unsatisfactory levels. Concrete block volume will be stable, but the Company is anticipating growth in its concrete brick activity.

On balance, cement consumption in two of the Company's three market areas—Ontario and Western New York State—is expected to remain close to 1979 levels in 1980. In Michigan, the third area, cement consumption may well decline, partly reflecting setbacks suffered by the automotive industries. Accordingly,

D. S. Campbell, Assistant Secretary, R. P. Sutherland, Treasurer, D. R. T. White, Vice-President Administration and Finance and Secretary, and C. A. Gibbs, Assistant Treasurer.

Company shipments of cement and clinker are not expected to be substantially different in 1980 from those made in 1979. The profitability on export shipments to the U.S.A. is presently enhanced by a favourable exchange differential. This profitability could be adversely affected by a strengthening of the Canadian dollar—a possibility in 1980.

In summary, considering the projections of demand and the present economic uncertainties, management expects, at this time, that the operating results for 1980 will not be markedly different from those achieved in 1979.

Directors

In August, 1979, Mr. Basil Hall resigned as a Director of the Company after five years of service. His efforts on behalf of the Company were greatly appreciated. Mr. Franklin L. Rittmueller of Frankenmuth, Michigan, President and Chief Executive Officer of Frankenmuth Bank and Trust Company and Peoples Banking Corporation, was appointed to fill the vacancy on the Board of Directors. The Company was particularly pleased to have Mr. Rittmueller join the Board as its cement operations in Michigan are becoming increasingly significant.

Management

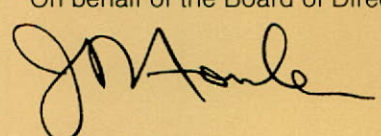
Mr. W. M. Bateman, Vice Chairman of the Board, resigned from the Company as an officer and Director on October 31, 1979 to accept a senior position with a large international construction company. Mr. Bateman was President of the Company from December, 1971 to March, 1979 and the Company wishes to acknowledge his contribution and dedicated service.

Mr. B. T. Price, Vice President—Operations, resigned from the Company in February, 1979 to join a cement company operating in Western Canada. His contributions to the Company during his 12 years of service were considerable.

In March, 1979, Mr. J. D. Fowler who was then Executive Vice President of the Company, was appointed President. In the same month, Mr. J. A. Clarke was appointed Manager of Operations with direct responsibilities for all the manufacturing operations of the Cement Division. Mr. Clarke was previously Plant Manager—Picton.

The Board of Directors expresses its sincere appreciation of the dedicated efforts of its employees during the year and especially wishes to thank the many customers of the Company who have continued their loyal support.

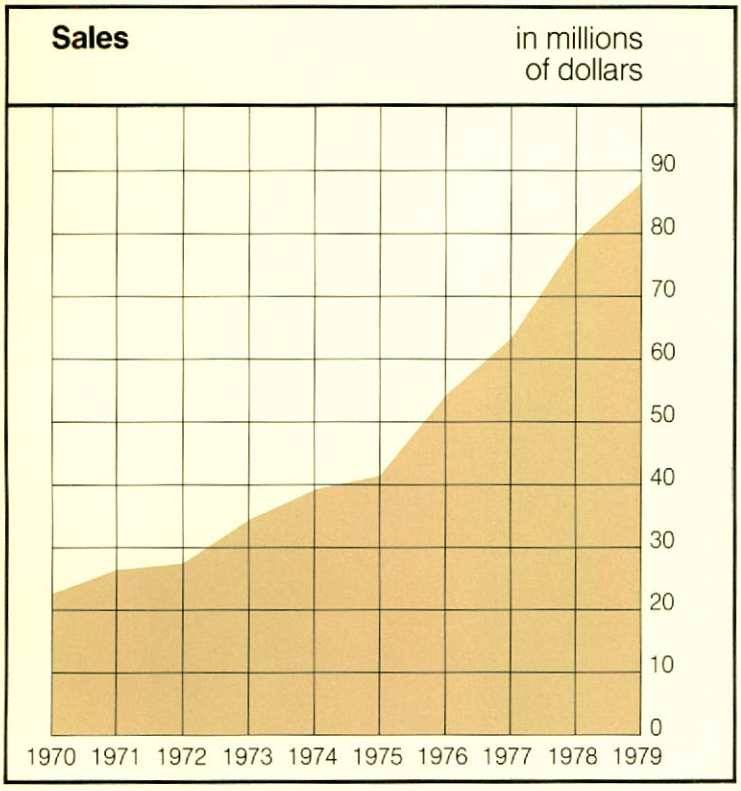
On behalf of the Board of Directors,

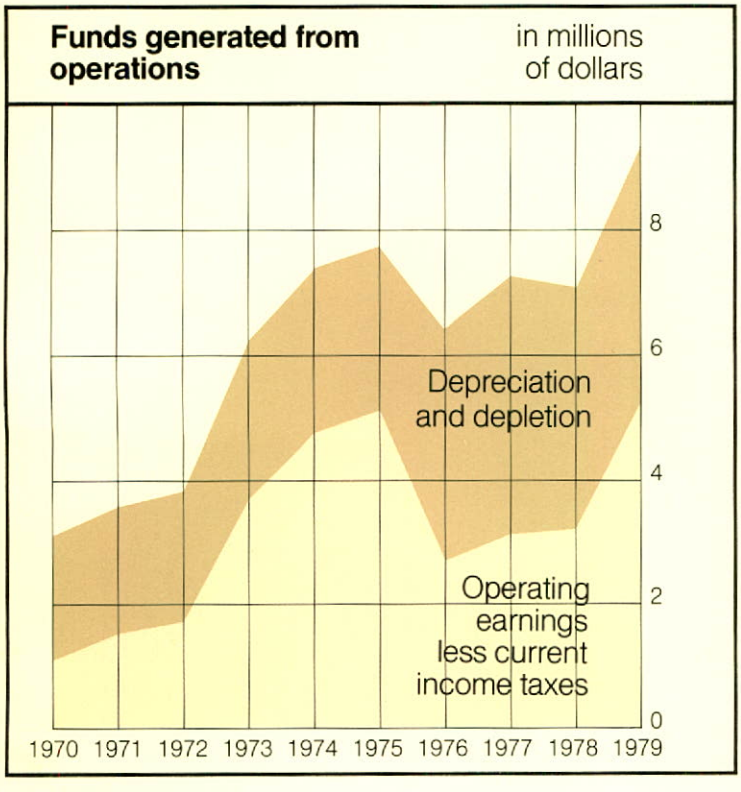


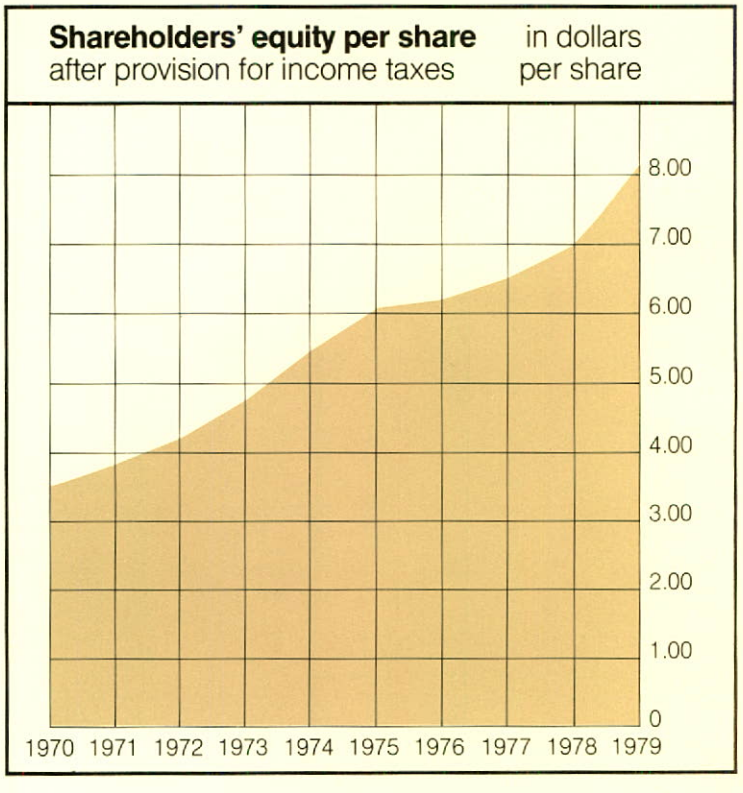
J. D. Fowler
President

January 10, 1980

Financial trends at a glance

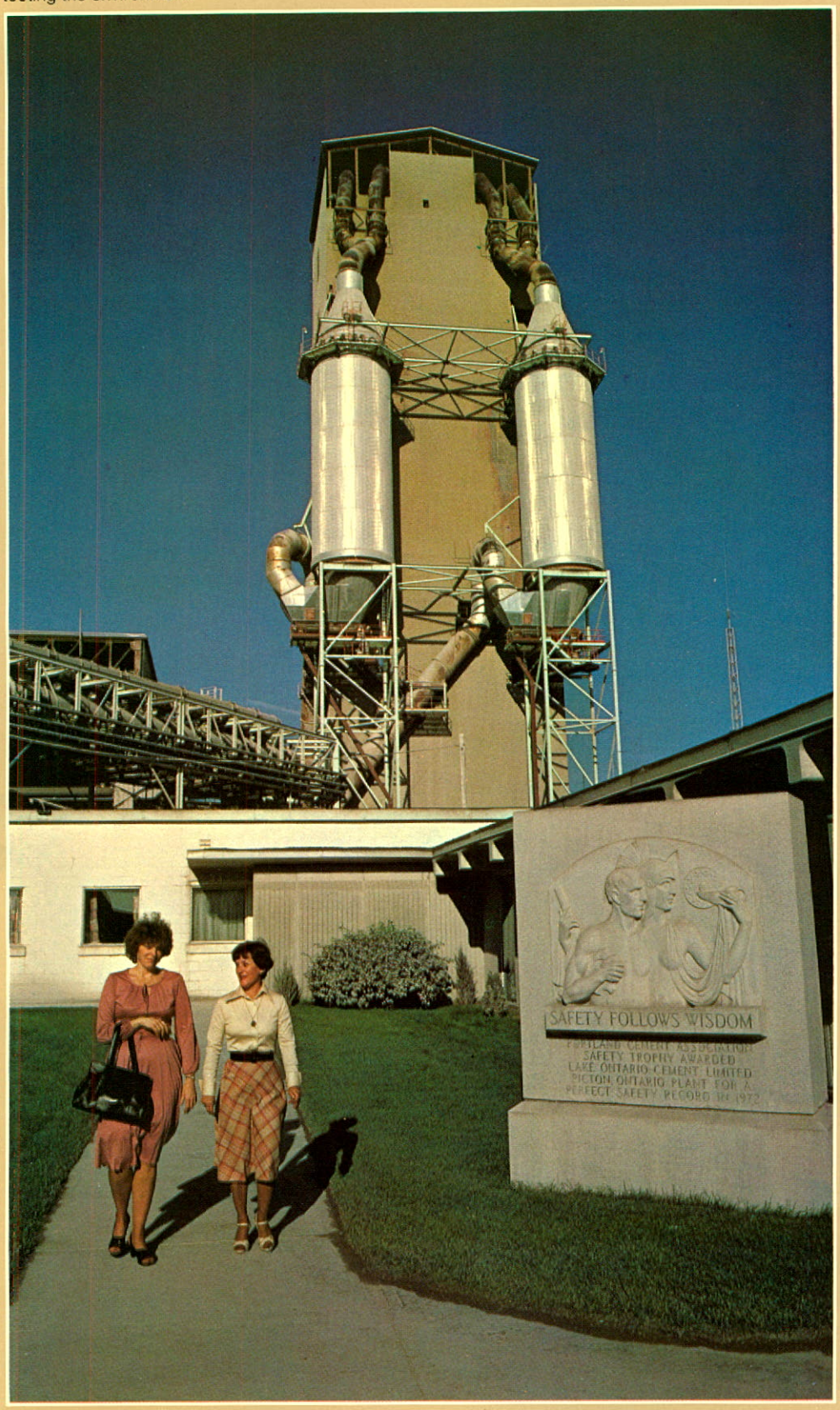






Conserving energy and the environment

Completion of the two conditioning towers at the Picton plant in 1979 represented a major capital investment. They perform a special role in protecting the environment.



In today's world, conservation has come to mean two things. There's the conservation of energy, and the conservation of the environment. Both concern us all greatly, and the next sections of this report are designed to give you some idea of how Lake Ontario Cement is meeting its obligations.

Reducing the consumption of energy continues to be one of your Company's major goals, and for many years it has been an objective to achieve a substantial reduction in the use of fuel on a per ton produced basis. The results of our efforts have been most satisfactory to date and, happily, we expect continuing improvements as we pursue our present programs.

The function of the cement industry is unique. In simplest terms we convert some very basic natural resources into the most economical and durable building material on earth. These natural resources, fortunately, are in abundant, unlimited supply. They present no hazard to animal or plant life in either their natural or processed states. We are nevertheless very aware of our dependence on one of Nature's bounties and are committed to full acceptance of our responsibility to the environment in which we work and live.

Much of what your Company has achieved in the interests of environmental control and conservation has been paid for out of the profits of a viable corporation, profits which might otherwise have been used for expansion or distributed as dividends. It is management's belief that we have acted responsively and responsibly on your behalf. We are pledged to continue to do so.

Energy conservation

The cement industry in North America is the sixth largest industrial user of natural fuel energy. Faced with the impact of escalating fuel costs in recent years, the industry in Canada has taken a lead in instituting a voluntary energy conservation program and reporting to government. A goal of 9 to 12% reduction in fuel usage has been set for 1980, and the industry is now setting even higher goals for attainment by 1985.

By far the greatest amount of energy used in manufacturing cement is consumed in fuel for the kiln operation. The bulk of the remaining energy is associated with the electrical power used to quarry and transport raw materials, drive the grinding equipment and rotate the kilns.

Dramatic change

Lake Ontario Cement uses principally gas, coal and electricity in its cement production.

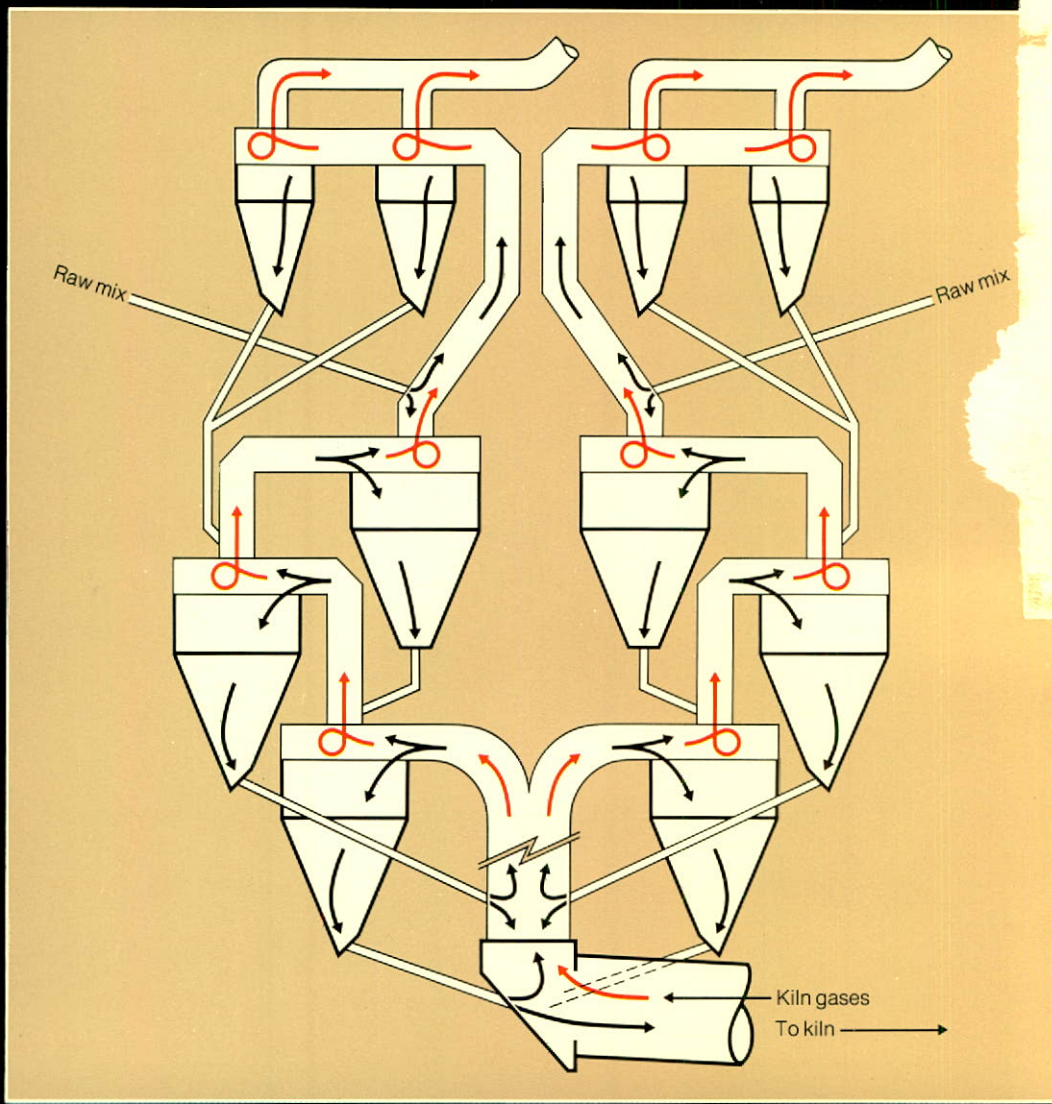
The Company has provided continuously for the use of the cheapest available fuel. In the early 1970s this was natural gas, but now the cheaper fuels are coal and coke and these are the predominant fuels used in the kilns. Gas is used generally for start-up only and for kiln control requirements, but further serves as a back-up alternate firing system.

A dramatic reduction in fuel used to produce a ton of cement was accomplished with the installation of the new pre-heater kiln. The system not only doubled the Picton plant's capacity to produce clinker, but also achieved a one-third saving in fuel when compared to the three older kilns already in production.

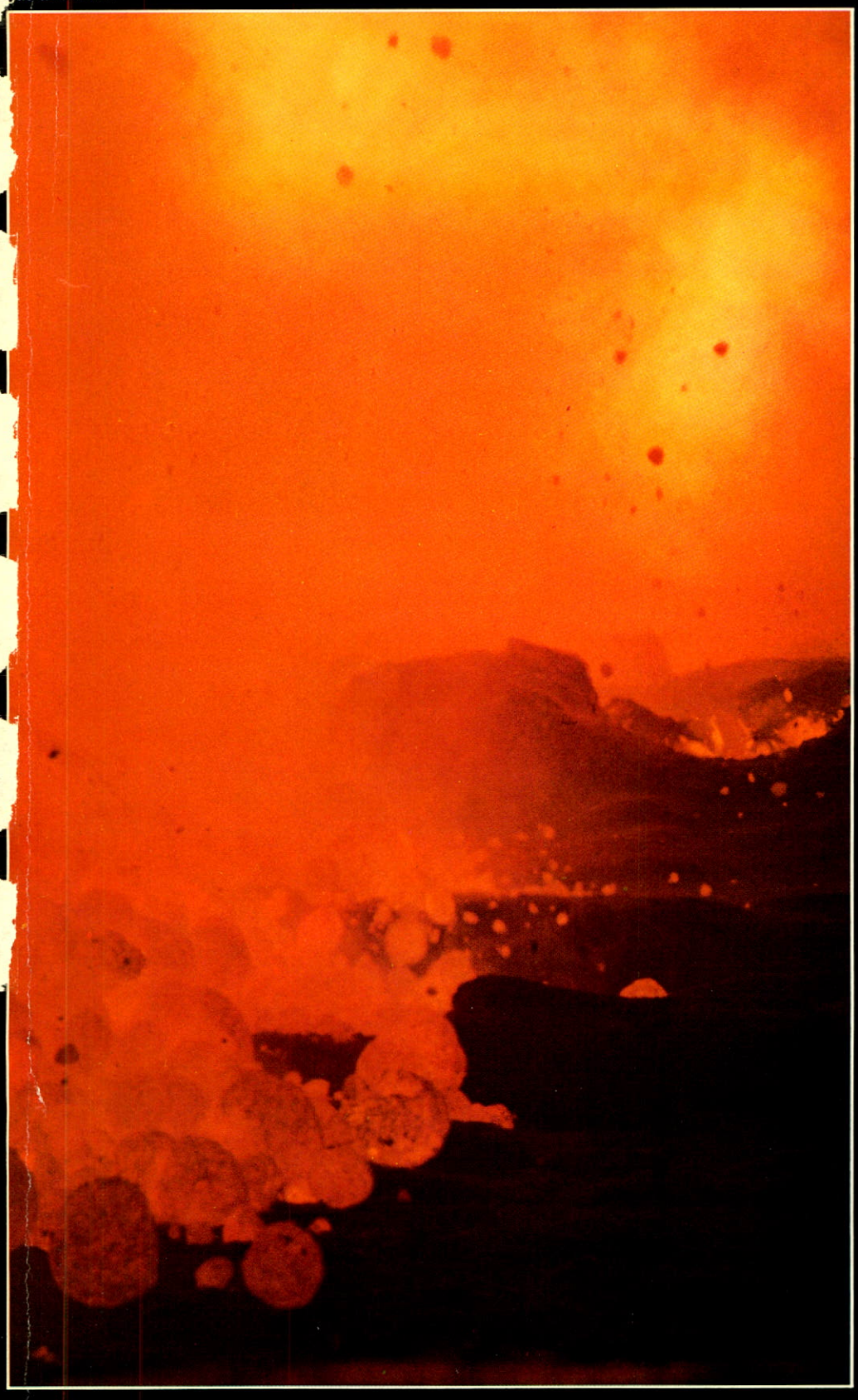
Energy use is monitored at the control panel of each kiln.

Bottom: Diagram shows how hot exhaust gases from the kiln are directed up through the cyclone chambers of the pre-heater system, raising the temperature of the raw mix.

Special chains help convey heat through the mix rotating in the kilns.



Kiln operation consumes by far the greater amount of energy used in cement production. The kilns at Picton can use both gas and coal.



The pre-heater portion of the new kiln is housed in a tower which is the tallest structure at the Picton plant site. It consists basically of a series of cone-shaped vertical cyclone chambers through which the raw mix is swirled amid hot exit gases from the kiln itself. This means the kiln gases, which reach a phenomenal 1400 degrees centigrade, are used more effectively. Previously, much of the energy in these hot exit gases went to waste.

Since it is already heated, the mix requires a relatively short time in the kiln. As a result, the kiln consumes approximately 32 therms of heat energy per ton of cement clinker produced, compared to the previous standard of 48 therms – an important one-third saving.

Installation of the pre-heater kiln followed the introduction in 1974 of the new roller mill system which now uses the remaining heat from the pre-heater kiln exhaust gases to dry the raw material ground in the mills. This system also is a more effective user of electricity.

Further aids for control and energy optimization are provided by automatic control loops on many of the processes and, throughout the plant, a series of alarms which alert the control operators instantly of abnormal conditions.

Another important device is the use of large sections of chains within the older types of kilns. The chains provide increased heat transfer from the hot combustion gases to the incoming raw feed by creating more turbulence and directly passing heat from the hot gases to the chains and then to the raw materials. They are not required in the new pre-heater type of kiln.

Environmental control

Worked-out portions of the Company's aggregates operation at Alton, Ontario, are reclaimed for farming.

Bottom left: John Wynen, left, Manager of Engineering, works with regional advisory group.

Bottom centre: Instruments record all aspects of precipitator operation.

Cement has often been described as the most useful and durable building material on earth; so it is, in fact, an essential product of today's society.

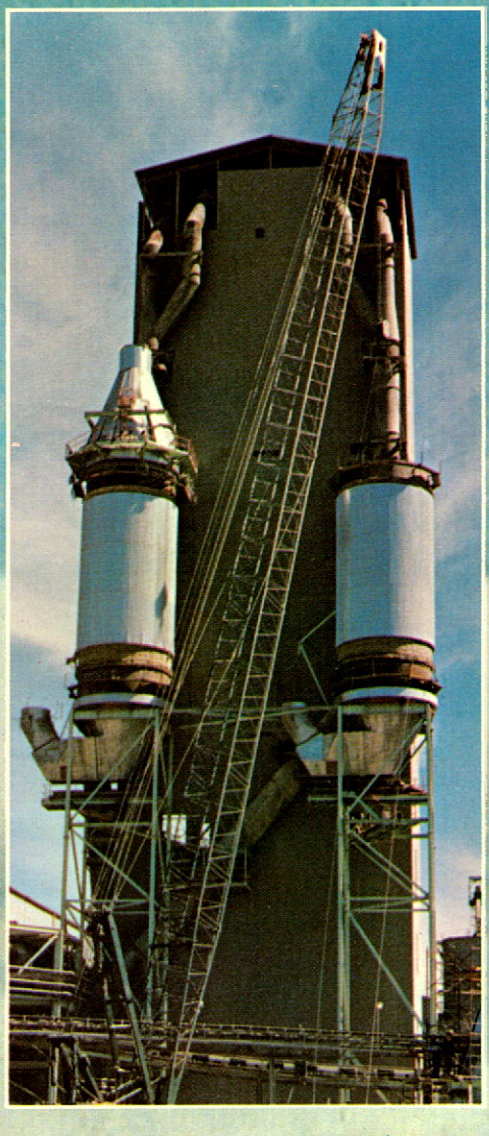
Manufactured to the most rigid specifications, it is an extremely fine powder, finer than face powder. Yet the very fineness that is one of its principal characteristics means that a wide variety of precautions and controls must be imposed during its production.

Recognizing the need for these precautions, the cement industry in Canada has initiated close liaison with government at all levels to assist in establishing uniform and acceptable standards. Officers of Lake Ontario Cement are active in various study and advisory groups set up for this purpose.

By its very nature, environmental control equipment is enormously expensive, and installing it must of necessity be programmed over a period of years. As part

Bottom right: An electrostatic precipitator uses electrical forces to clean even the tiniest particles from a gas stream.

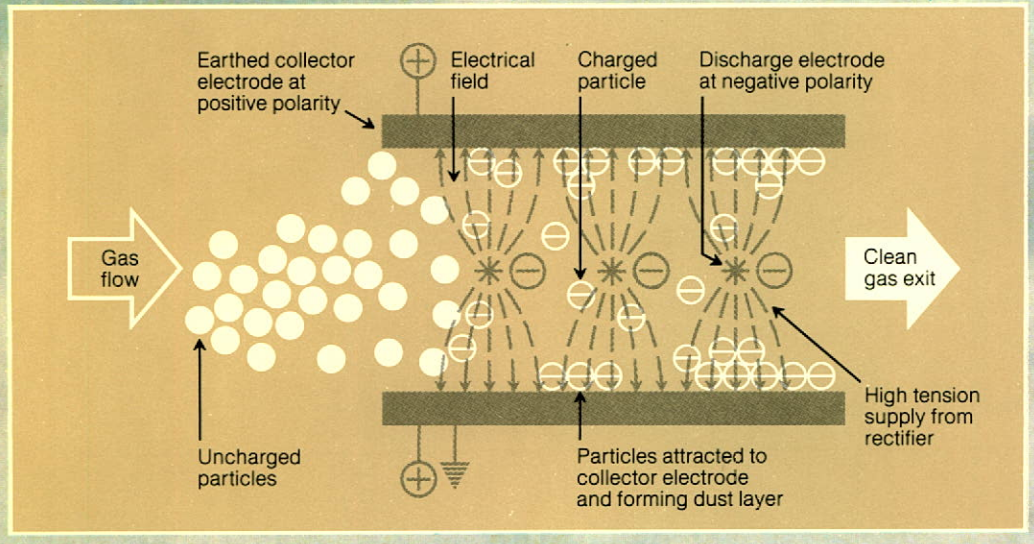
Costing $1,750,000, the conditioning towers have contributed greatly to operating efficiency at the Picton plant. This is a view during construction.



of our continuing effort, Lake Ontario Cement since 1974 has invested almost $5 million in various items of capital equipment which help protect the environment.

The two conditioning towers completed at Picton in 1979 at a cost of $1,750,000 are a major investment in both environmental control and energy conservation. The towers represent a relatively new development. Their function is to treat the enormous amounts of gas generated during cement making so that the electrostatic precipitators – which perform both environmental control and product recovery – can operate more effectively.

Experience has shown that precipitators perform best with gases that are low in temperature and high in moisture content. The conditioning towers introduce water to cool the gases and increase their humidity, thus providing improved operating efficiency along with their other benefits.



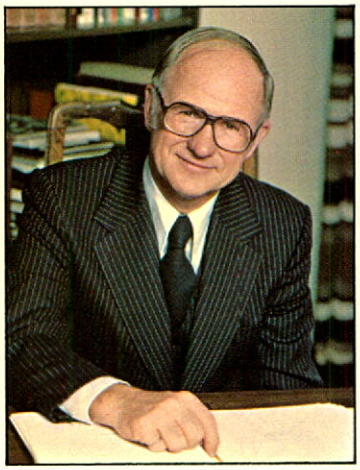
Directors of the Company


Stephen B. Roman

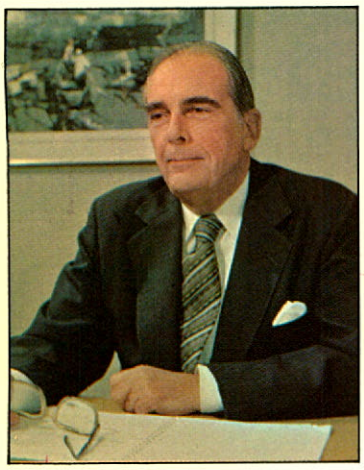

Rudolph P. Bratty, Q.C.


Edward P. Curtis, Jr.


John D. Fowler


Donald J. Matthews


E. Bruce McConkey


John A. Mullin, Q.C.


Charles D. Parmelee


Franklin L. Rittmueller

Lake Ontario Cement Limited

and Subsidiary Companies

Consolidated Financial Statements, Notes and Summaries

for the year ended
December 31, 1979

Consolidated balance sheet as at December 31

Assets	1979	1978
Current assets		
Cash and short-term deposits	**$ 1,301,741**	$ 2,907,969
Accounts receivable	**14,397,155**	12,895,955
Inventories (note 3)	**16,429,217**	12,995,424
Prepaid expenses	**553,157**	350,506
	32,681,270	29,149,854
Fixed assets—at cost (note 4)	**90,364,705**	86,476,109
Less: Accumulated depreciation and depletion	**41,100,133**	37,930,014
	49,264,572	48,546,095
Other assets	**—**	134,788
	$81,945,842	$77,830,737

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, 1979 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, 1979 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, after giving retroactive effect to the change in the method of accounting for leases referred to in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Ontario, January 10, 1980

Coopers & Lybrand, *Chartered Accountants*

Liabilities	1979	1978
Current liabilities		
Accounts payable and accrued liabilities	**$ 9,176,783**	$ 8,974,537
Income taxes	**2,060,591**	1,556,496
Long-term debt due within one year (note 5)	**2,940,485**	1,782,977
	14,177,859	12,314,010
Long-term debt (note 5)	**17,783,550**	20,244,872
Minority interest in subsidiary company (note 13)	**944,687**	937,270
Deferred income taxes (note 6)	**10,345,090**	10,046,130
	43,251,186	43,542,282
Shareholders' equity		
Capital stock (note 7)		
Authorized—5,000,000 common shares of the par value of $1 each		
Issued—4,306,461 shares (1978—4,302,461)	**4,306,461**	4,302,461
Contributed surplus	**4,896,161**	4,880,161
	9,202,622	9,182,622
Retained earnings (notes 5 and 6)	**29,492,034**	25,105,833
	38,694,656	34,288,455
	$81,945,842	$77,830,737

Signed on behalf of the Board of Directors

J. D. Fowler, Director

E. B. McConkey, Director

Consolidated statement of earnings

for the year ended December 31	1979	1978
Sales	**$88,317,149**	$78,363,743
Cost of sales	**69,340,021**	64,186,476
Gross profit	**18,977,128**	14,177,267
Expenses		
Selling, general and administrative	**7,451,548**	6,852,091
Loss (gain) on translation of foreign currency (note 1(b))	**87,670**	(382,021)
Interest (note 8)	**2,624,781**	2,638,449
	10,163,999	9,108,519
Operating profit	**8,813,129**	5,068,748
Provision for income taxes	**3,854,000**	1,902,000
	4,959,129	3,166,748
Minority interest in net earnings of subsidiary company	**15,667**	16,838
Net earnings before extraordinary items	**4,943,462**	3,149,910
Extraordinary items (note 9)	**950,000**	—
Net earnings for the year	**$ 5,893,462**	$ 3,149,910
Net earnings per common share before extraordinary items	**$1.15**	$0.73
Net earnings per common share	**$1.37**	$0.73

Consolidated statement of retained earnings

for the year ended December 31	1979	1978
Retained earnings—beginning of year	**$25,105,833**	$22,816,415
Net earnings for the year	**5,893,462**	3,149,910
	30,999,295	25,966,325
Dividends	**1,507,261**	860,492
Retained earnings—end of year	**$29,492,034**	$25,105,833

Consolidated statement of changes in financial position

for the year ended December 31	1979	1978
Source of working capital		
Net earnings before minority interest and extraordinary items	**$ 4,959,129**	$ 3,166,748
Depreciation, depletion and amortization	**4,068,142**	3,949,535
Deferred income taxes	**298,960**	—
Funds provided from current operations	**9,326,231**	7,116,283
Lease obligations assumed (note 5)	**312,413**	97,427
Extraordinary items (note 9)	**950,000**	—
Other transactions	**291,207**	184,167
	10,879,851	7,397,877
Application of working capital		
Fixed asset additions	**4,764,538**	2,739,139
Long-term debt due within one year	**2,940,485**	1,782,977
Dividends	**1,507,261**	860,492
	9,212,284	5,382,608
Increase in working capital	**1,667,567**	2,015,269
Working capital—beginning of year	**16,835,844**	14,820,575
Working capital—end of year	**$18,503,411**	$16,835,844

Notes to consolidated financial statements

for the year ended December 31, 1979

1. Summary of accounting policies

(a) Principles of consolidation

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

(b) Foreign currency translation

Current assets and liabilities are translated into Canadian dollars at year-end exchange rates. All other assets and liabilities are translated at rates prevailing when the assets were acquired or the liabilities incurred. Sales and expenses are translated at average rates prevailing during the year, except that depreciation and depletion are translated at historic rates. The gains or losses resulting from these translations are reflected in the statement of earnings.

(c) Inventories

(i) Finished and semi-processed products are stated at the lower of average cost and net realizable value. Cost includes attributable direct costs and overheads other than depreciation.

(ii) Raw materials, fuel supplies and maintenance and repair parts are stated at the lower of cost (generally average cost) and replacement cost.

(d) Fixed assets

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

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

Owned:	
Land improvements	5% to 10%
Buildings and structures	2½% to 10%
Machinery and equipment	5% to 10%
Vehicles and mobile equipment	10% to 20%
Leased:	
Equipment	16⅔% (term of lease)
Vehicles	10% to 25%

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

2. Change in accounting policy

The Company has adopted, on a retroactive basis, the CICA recommendations with respect to accounting for leases. The balance sheet as at December 31, 1978 and the statement of changes in financial position for the year then ended have been restated to reflect this change. The balance of retained earnings at December 31, 1978 and 1977 and the net earnings for the year ended December 31, 1978 have not been restated since they are not materially affected by the adoption of the recommendations.

3. Inventories

Inventories consist of:

	1979	1978
Finished and semi-processed products	**$ 6,380,916**	$ 4,665,746
Raw materials and fuel supplies	**5,891,935**	4,480,265
Maintenance and repair parts	**4,156,366**	3,849,413
	$16,429,217	$12,995,424

4. Fixed assets

(a) Fixed assets consist of:

	1979			1978
	Cost	**Accumulated depreciation and depletion**	**Net**	Net
Owned:				
Land and land improvements	**$ 3,417,022**	**$ 628,828**	**$ 2,788,194**	$ 2,756,778
Mineral properties	**2,550,052**	**770,982**	**1,779,070**	1,839,515
Buildings and structures	**16,635,496**	**6,295,135**	**10,340,361**	10,586,890
Machinery and equipment	**56,300,913**	**26,881,044**	**29,419,869**	29,474,031
Vehicles and mobile equipment	**10,322,065**	**6,237,380**	**4,084,685**	3,266,397
Leased:				
Equipment	**227,445**	**29,373**	**198,072**	1,747
Vehicles	**911,712**	**257,391**	**654,321**	620,737
	$90,364,705	**$41,100,133**	**$49,264,572**	$48,546,095

(b) Included in the cost of fixed assets at December 31, 1979 are fully depreciated assets with an original cost of $12,400,000.

5. Long-term debt

Long-term debt consists of:

	1979		1978
	Due within one year	**Long-term portion**	Long-term portion
9¾% debenture due 1994	**$ 860,000**	**$12,060,000**	$12,920,000
10% mortgages due 1981 to 1982	**40,000**	**51,500**	91,500
9¾% notes due 1981	**131,697**	**34,930**	166,627
Promissory notes, with interest at U.S. prime rate plus 1% (but not less than 8% or greater than 9%)			
"A" note, due 1980 to 1981 (U.S. $1,250,000)	**1,106,750**	**315,000**	1,312,500
"B" note, due 1981 to 1983 (U.S. $2,550,000)	**—**	**2,677,500**	2,677,500
Term bank loan, with interest at U.S. prime rate plus 1% (but not less than 8%) due 1980 to 1983 (U.S. $2,500,000)	**582,500**	**2,100,000**	2,625,000
Capital portion of lease obligations, with interest at rates from 8% to 14% due 1980 to 1985	**219,538**	**544,620**	451,745
	$2,940,485	**$17,783,550**	$20,244,872

The aggregate payments required to meet debt obligations, other than obligations under capital leases, in each of the next five years are as follows:

1980	$2,720,947
1981	2,457,430
1982	2,394,000
1983	2,907,500
1984	860,000

The debenture is payable in annual instalments of $860,000 and is secured by a first mortgage on the manufacturing facility in Picton, by a floating charge on substantially all other property, plant and equipment of the Company and by a pledge of the shares of U.S. subsidiary companies. The agreement providing for the issue of this debenture requires that consolidated working capital be maintained at a specified level and allows the payment of dividends up to 50% of post-1973 consolidated net income, provided that consolidated net tangible assets are not reduced below a specified level. At December 31, 1979 consolidated working capital and consolidated net tangible assets exceeded the specified levels.

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

The long-term portion of the U.S. debt has been translated to Canadian dollars at the rate of exchange at the date the debt was incurred. If the year-end rate had been used, the long-term portion would have been increased by $550,000.

6. Income taxes

The total deferred income taxes to December 31, 1979 amount to $14,467,090, of which $4,122,000 is not recorded in the accounts. Until December 31, 1967, deferred income taxes were reported by note to the financial statements. On January 1, 1968, the Company changed its method and, from that date, has recorded subsequent deferred income taxes in the accounts.

7. Share purchase plan and stock option

(a) Share purchase plan

Under the terms of the share purchase plan for key executives, as amended in 1976, authorized and unissued common shares of the Company up to, but not exceeding, 200,000 shares in the aggregate may be allotted and issued to key executives. Shares are issued for a subscription price payable by way of a down payment and instalment payments extending over a period of not more than seven years. The subscriber waives all voting rights until the shares are fully paid. Shares may be allotted and issued at a price representing a discount of not more than 15% from the market price at the time of allotment. As at December 31, 1979, 76,000 shares had been allotted and issued; of the 76,000 shares, 72,000 have been fully paid and no instalment payments were in arrears on the remaining shares.

(b) Stock option

An option to purchase 4,000 shares at $5.00 per share, which was granted in 1969 to an officer who was not a director, was exercised during the year.

8. Interest

Interest consists of:

	1979	1978
Long-term debt interest	**$2,299,170**	$2,276,711
Bank loan interest	**406,245**	393,592
Short-term deposit and other interest income	**(80,634)**	(31,854)
	$2,624,781	$2,638,449

9. Extraordinary items

During the year, the Company settled claims made in prior years for damages arising from the expropriation of a leasehold interest in a sandbank property and the failure of certain plant equipment. These settlements resulted in compensation of $950,000, net of related taxes of approximately $400,000.

10. Remuneration of directors and officers

During the year ended December 31, 1979, twelve directors received aggregate remuneration of $97,742 as directors. Six officers, of whom three were also directors, received aggregate remuneration of $304,835 as officers.

11. Leases and commitments

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

	Capital leases	Operating leases
1980	$296,635	$1,467,232
1981	262,233	1,415,380
1982	212,619	139,504
1983	115,453	91,719
1984	59,345	88,983
Subsequent	16,759	795,012
Total minimum lease payments	963,044	$3,997,830
Less: Amount representing interest	198,886	
Obligations under capital leases	$764,158	

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

12. Pension plans

Based on the most recent actuarial reports, unfunded past service liabilities amounted to $3,080,000 at December 31, 1979. This amount, of which approximately $1,200,000 is fully vested, is being expensed and funded over periods from 11 to 18 years.

The total charge against operations in 1979, with respect to past service liabilities, amounted to $373,000 including interest.

13. Subsequent event

Effective January 7, 1980, the Company acquired the minority interest in a subsidiary company for a cash consideration of $924,000.

Lake Ontario Cement Limited

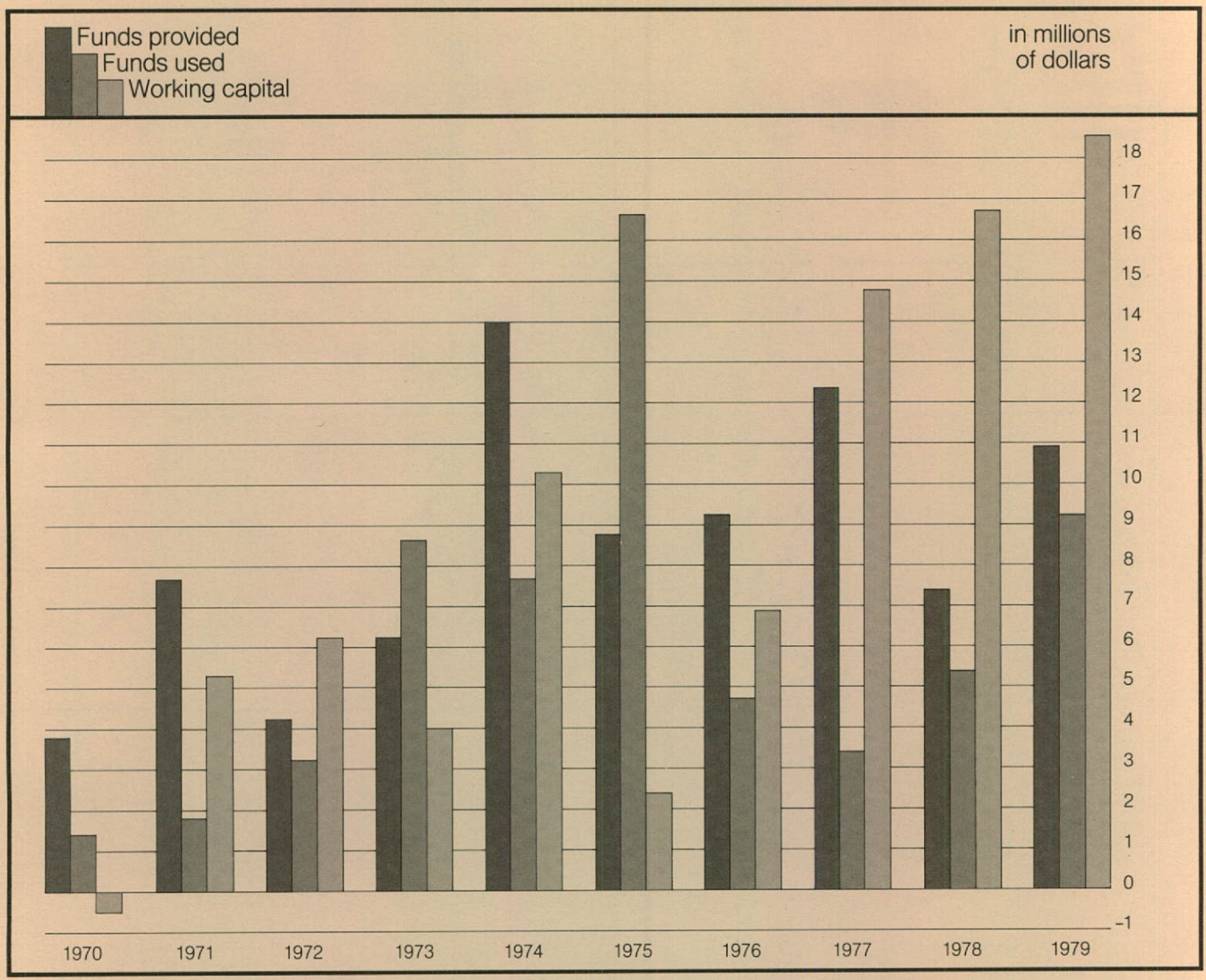
1970	1971	1972	1973	1974	1975	1976
$22,617	$26,443	$27,338	$34,883	$39,398	$41,833	$54,845
18,246	20,576	20,926	26,483	30,155	31,469	44,810
4,371	5,867	6,412	8,400	9,243	10,364	10,035
2,198	2,273	2,348	2,758	3,152	3,688	4,869
						(116)
1,084	987	1,098	1,124	1,089	1,545	2,616
3,282	3,260	3,446	3,882	4,241	5,233	7,369
1,089	2,607	2,966	4,518	5,002	5,131	2,666
555	1,292	1,440	1,818	2,230	2,045	1,126
534	1,315	1,526	2,700	2,772	3,086	1,540
						55
34	109	274	213	226	128	
			(188)	482	111	
$ 568	$ 1,424	$ 1,800	$ 2,725	$ 3,480	$ 3,325	$ 1,485
4,223	4,223	4,278	4,302	4,302	4,302	4,302
$ 0.13	$ 0.34	$ 0.42	$ 0.63	$ 0.81	$ 0.77	$ 0.35
			$ 0.10	$ 0.12	$ 0.15	$ 0.20
$ 3.48	$ 3.82	$ 4.23	$ 4.76	$ 5.45	$ 6.07	$ 6.21
$ 534	$ 1,315	$ 1,526	$ 2,512	$ 2,772	$ 3,197	$ 1,540
555	206	180	1,223	2,010	1,900	1,159
2,040	2,080	2,110	2,495	2,685	2,673	3,687
3,129	3,601	3,816	6,230	7,467	7,770	6,386
				900	900	900
						1,443
625	10,340	353		15,463		327
(29)	69	26	66	60	6	185
3,725	14,010	4,195	6,296	23,890	8,676	9,241
1,206	1,381	2,758	6,983	5,913	15,262	2,498
98	6,600	239	707	10,041	124	1,367
82	200	228	465	1,046	592	
			428	516	645	860
1,386	8,181	3,225	8,583	17,516	16,623	4,725
2,339	5,829	970	(2,287)	6,374	(7,947)	4,516
$ (546)	$ 5,283	$ 6,253	$ 3,966	$10,340	$ 2,393	$ 6,909

Ten year financial summary

Figures in thousands, except amounts per share

1977	1978	**1979**	
			Operating results
$64,641	$78,364	**$88,317**	Sales
53,167	64,186	**69,340**	Cost of sales
11,474	14,178	**18,977**	Gross profit
5,756	6,852	**7,451**	Selling, general and administrative expenses
(262)	(382)	**88**	Loss (gain) on foreign exchange
2,660	2,639	**2,625**	Interest
8,154	9,109	**10,164**	
3,320	5,069	**8,813**	**Operating profit**
1,262	1,902	**3,854**	Provision for income taxes
2,058	3,167	**4,959**	Net earnings before minority interest, income from investment and extraordinary items
50	17	**16**	Minority interest in net earnings of subsidiary company
			Investment income on equity basis
			(Loss) gain on disposal of fixed assets
		950	Extraordinary items
$ 2,008	$ 3,150	**$ 5,893**	**Net earnings for the year**
4,302	4,302	**4,306**	Number of common shares outstanding
$ 0.47	$ 0.73	**$ 1.37**	Earnings per common share
$ 0.20	$ 0.20	**$ 0.35**	Dividends per common share
$ 6.48	$ 7.01	**$ 8.03**	Equity per common share (after full provision for deferred income taxes)
			Source of working capital
$ 2,058	$ 3,167	**$ 4,959**	Net earnings before minority interest, income from investment and extraordinary items
1,022		**299**	Income taxes, deferred
4,178	3,949	**4,068**	Depreciation and other items (net)
7,258	7,116	**9,326**	
		950	Extraordinary items
			Amount due on settlement of legal action
4,462			Working capital from acquisitions
579	97	**312**	Proceeds from long-term debt
11	184	**291**	Other transactions
12,310	7,397	**10,879**	
			Application of working capital
2,236	2,739	**4,765**	Additions to property, plant and equipment (net)
1,302	1,783	**2,940**	Reduction in long-term debt
			Current portion of deferred cost reduction, before income taxes
860	860	**1,507**	Dividends paid on common shares
4,398	5,382	**9,212**	
7,912	2,015	**1,667**	Increase/(decrease) in working capital
$14,821	$16,836	**$18,503**	Working capital (deficiency)

Application of funds



Lake Ontario Cement Limited

Canada

United States

Lake Ontario Cement

Premier Concrete Products

Primeau Argo Block

Aetna Cement Corporation

Rochester Portland Cement

Mohawk Valley Cement

The Company Logo

Two symbols from earliest times are combined to form the Lake Ontario Cement Limited logo. The ⊤ was once the universal symbol for stone, and ≈ the sign for water.

Forms of cement were in use even before the Egyptian pyramid builders employed a gypsum plaster as mortar. The early Greeks used slaked lime. The Romans mixed finely ground volcanic rock with lime and water to build the Pantheon and Colosseum. Today, modern cement is made from special, finely ground ⊤ which is burned with other mineral substances. This cement is mixed with ≈ , sand and more ⊤ to make concrete which will endure for ages.

Canadian Cement Division

2 Carlton Street, Toronto, Ontario

J. A. Clarke, Manager of Operations
L. P. Finnegan, Plant Manager
J. K. Carruthers, Manager of Transportation
G. R. Wilson, General Sales Manager
W. F. Behan, General Credit Manager

Cement Manufacturing Plant:
Highway 49, Picton, Ontario

Sales Office:
2 Carlton Street, Toronto, Ontario

Toronto Distribution Plant:
312 Cherry Street, Toronto, Ontario

Windsor Distribution Plant:
210 Detroit Street, Windsor, Ontario

Ottawa Distribution Plant:
1815 Bantree Street, Ottawa, Ontario

Premier Concrete Products

2 Carlton Street, Toronto, Ontario

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

Toronto and Hamilton area:
1625 Shawson Drive, Mississauga, Ontario
349 Kenora Ave., Hamilton, Ontario
A. S. Frayne, Sales 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

Aggregate Division

1625 Shawson Drive, Mississauga, Ontario
C. C. Husband, Manager

Subsidiary Companies

Aetna Cement Corporation

Main Street, Essexville, Michigan

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

Primeau Argo Block Co. Limited

170 Brockport Drive, Rexdale, Ontario

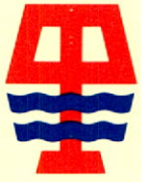
R. H. Grimm, President & Chief Executive Officer
W. A. Primeau, Executive Vice-President
R. J. Primeau, Vice-President – Operations
E. Taylor, Secretary-Treasurer

Rochester Portland Cement Corp.

361 Boxart St., Rochester, New York 14612

Division:
Mohawk Valley Cement Company

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



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