Making change

2003 Annual Report

Royal Canadian Mint
Monnaie royale canadienne

The 2003 Golden 1-Cent Coin

The 2003 Golden 1-Cent Coin is the first of a six year series of limited edition Annual Reports featuring a limited mintage numismatic coin. The series will culminate in the Mint's Centennial anniversary in 2008.

The 2003 Golden 1-Cent Coin is a proof copper composition. It has a diameter of 19.05 millimetres and weighs 2.35 grams. The coin features selective gold plating to highlight the relief of the traditional maple leaf design by G.E. Kruger-Gray, first introduced in 1937. The obverse features the portrait of Her Majesty Queen Elizabeth II by Dora de Pédery-Hunt. The coin was expertly struck by the Royal Canadian Mint and has a limited mintage of 10,000 coins worldwide.

To order your own copy of the limited edition annual report featuring the Golden 1-Cent Coin, contact the Royal Canadian Mint online at www.mint.ca, or at 1-800-267-1871.

Defining the new Royal Canadian Mint brand

As part of repositioning the Royal Canadian Mint for future growth, new visual branding has been developed. The redesign creates a powerful image for the Mint that is unique and recognizable, standardized across all communications touchpoints and a significant element in cost reduction. This modernized brand reflects our core customer promise of providing high quality products that reflect the heritage, culture and values of Canada. It will be rolled out during 2004.

Royal Canadian Mint

Monnaie royale canadienne

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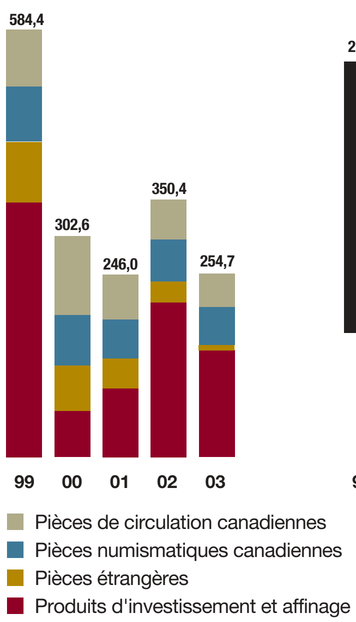
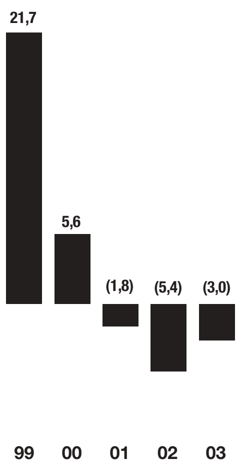
Financial and operating highlights

	2003	2002	% change
Key financial highlights (in millions of dollars)			
Revenue	254.7	350.4	(27.3)
Income (loss) from continuing operations before income tax	0.5	(0.2)	350.0
Net loss from discontinued operations, net of taxes	(2.7)	(5.0)	46.0
Net income (loss)	(3.0)	(5.4)	44.4
Total assets	140.2	151.8	(7.6)
Capital expenditures	4.6	4.9	(6.1)
Cash flow from operating activities	13.8	23.3	(40.8)
Key operating highlights			
Circulation coins produced (in millions of pieces)	1,363.2	1,691.4	(19.4)
Gold bullion sales (in thousands of ounces)	237.6	392.0	(39.4)
Number of employees	471	563	(16.3)
Gross profit from continuing operations (in millions of dollars)	54.5	53.2	2.4
Value-added sales revenue per employee from continuing operations	67.0	93.0	(28.0)
Pre-tax return on equity from continuing operations	0.6%	(0.2%)	–
Debt to equity ratio	0.29:1	0.33:1	–
Shareholder's equity (in millions of dollars)	86.0	89.0	(3.4)
Total production (millions of pieces)	1,367.5	1,714.0	(20.2)

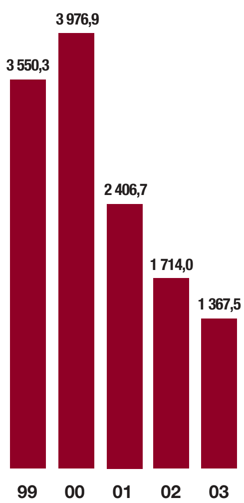
Revenus (par segment)
(en millions $)



Bénéfice net (perte nette)
(en millions $)



Production totale
(en millions de pièces)



The Mint at a glance

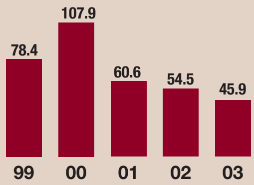
Profile: The Royal Canadian Mint produces all of the circulation coins used in Canada and manages the supporting coin distribution system for the Government of Canada. It is also one of the world's premier producers of circulation, numismatic and bullion investment coins for the domestic and international marketplace. As one of North America's largest gold refiners, it refines and recasts gold for Canadian and foreign customers.

Total revenue (% by segment)

Canadian circulation coins

Profile: The Mint's core responsibility is the cost-effective production of quality coins for circulation in Canada. It is also responsible for ensuring the supply of coins across the country meets the needs of business and the public.

Revenue ($ in millions)

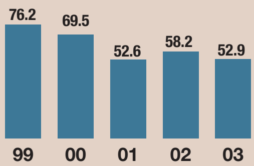


Demand for the Mint's circulation coins is driven by the condition of the economy and the ability of the Mint to produce coins that capture the imagination of Canadians.

Canadian numismatic coins

Profile: The Mint is renowned for its ability to mint coins of innovative effect and extraordinary quality for the coin collecting market. It also produces uncirculated, specimen and proof sets of circulation coins.

Revenue ($ in millions)

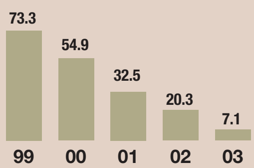


Demand for numismatic coins depends upon collectors' disposable income and the perceived investment value of the coins in the secondary market.

Foreign coins

Profile: The Mint produces coins using various alloys as well as its patented Multi-Ply technology developed to mint Canadian coinage. The Mint also markets foreign numismatic coins, ready-to-strike coin blanks and coin production tooling.

Revenue ($ in millions)

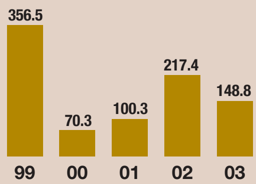


Excess global minting capacity created in 1999 with the launch of euro coins continues to foster intense competition in the global coin market.

Bullion products, Refinery and other

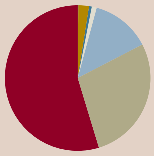
Profile: The Mint produces and markets gold and silver Maple Leaf bullion coins and gold wafers and bars for the investment market, as well as gold granules for jewellery and industrial applications. In addition to refining gold for customers, the Mint offers bullion storage, assaying and consulting services.

Revenue ($ in millions)



Market demand for the Mint's bullion has been affected by the decision of another mint to buy market share as well as renewed patriotism in the U.S., eliciting stronger interest in the American gold coins in that market.

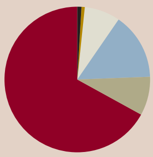
Revenue by region ($ in millions)



Canada	139.4
US	71.0
Asia	33.7
Latin America	2.8
Africa	1.6
Europe	6.1
Middle East	0.1

Outlook: After establishing financial stability in 2003, the Mint enters 2004 with better control over costs and a firmer understanding of its marketplace. While this is expected to drive profitability in 2004, the tight focus on delivering value to the Mint's customers will drive growth in 2005 and future years.

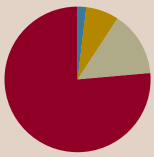
Production (millions of pieces)



1 cent	740.3
5 cent	94.4
10 cent	163.7
25 cent	87.6
50 cent	–
$1	5.1
$2	11.3

Outlook: In 2004, the Mint will focus on developing multi-year coin programs with themes that will stimulate the interest of Canadians in coin collecting. It is anticipated this will significantly increase demand for coins and the seigniorage earned by the Canadian government.

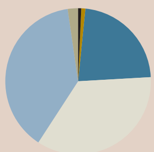
Revenue (% by region)



Canada	76.4
US	14.4
Europe	7.3
Other	1.9

Outlook: Sales of numismatic coins in 2004 will be driven by more effective direct marketing strategies; improved relationships with the Mint's collectors, dealers and distributors; themes that have been proven to capture collector attention; more effective packaging; more aggressive retail distribution; and, a redesigned web site.

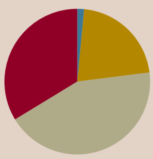
Revenue (% by region)



US	2.3
Asia	38.5
Latin America	35.1
Africa	22.5
Europe	0.9
Middle East	0.7

Outlook: In 2004, the Mint will focus on circulation coinage sales to countries where its patented Multi-Ply technology offers the most significant cost savings and the probability of securing profitable contracts is greatest. It will continue to offer integrated solutions, including technology transfer and consulting.

Revenue (% by region)



Canada	33.7
US	43.3
Asia	21.5
Other	1.5

Outlook: The Mint will commemorate the 25th anniversary of the Gold Maple Leaf program with the first change to the image on the coins since 1979. This change in design for 2004, along with continued global geopolitical turmoil and weakening capital markets, is expected to create a modest increase in demand.

Message from the Chairperson

The year 2003 was no doubt the most challenging and rewarding year as Chairperson of the Board of Directors of the Royal Canadian Mint.

The Board recognized the need for enhancement and renewal in corporate governance in order to continue our leadership in minting, maintain our corporate values and safeguard our long-term viability as a corporation.

The governance renewal that the Board began in earnest in 2002 was meant to modernize the practices of the Mint. The Board commissioned a thorough review of the Mint's governance practices—from roles and responsibilities to performance and risk management—with the objective of having the Mint become a leader in best practices. This work was a core focus of the Board for the year 2003. In addition, we began a thorough review of the Corporation's by-laws and of the Mint's policies and procedures.

The Board developed a Governance Policy manual setting out our governance framework, describing in detail how the Board will be structured and how the Corporation will operate. The Board's roles and responsibilities were reviewed and amended to reflect best practices. In addition to its annual management calendar, the Board implemented a three-year workplan, which focuses on duties and responsibilities of the Board and its committees. This workplan is a living and dynamic document that will ensure that the Corporation fulfills all of its responsibilities in a rigourous manner.

The Board also began the process of updating the policies of the Mint and making a commitment to keep them relevant and current. To date, the Board has updated the following existing policies: procurement, travel and risk management. The Board also approved the following new policies: hospitality, intellectual property, sponsorships, charitable donations, and employee charitable donations.

For the first time in its history, the Mint struck two one-of-a-kind gold coins based on the silver dollar designs of 2003 and 2002, and auctioned them off for charity. The 24 Karat Gold Coronation (Voyageur) Coin (inset), and the 24 Karat Gold Golden Jubilee Coin (background) raised $117,700.

The Niagara Falls $20 hologram coin, part of the Natural Wonders Collection initiated in 2003, was tremendously popular with collectors. All 30,000 issues were sold.

The three standing committees of the Board in 2003 reviewed their terms of reference, clarified roles and defined responsibilities. The Audit Committee conducted its first annual self-assessment and developed a more comprehensive Charter for the Committee, taking into account the recommendations of the Auditor General. The Human Resources Committee developed a Statement of People Philosophy that clearly articulates our corporate values, what we as a corporation expect of our employees, and what the employees can in turn expect from the Mint. The Corporate Governance Committee continued to oversee the governance practices of the Mint, taking a leadership role in reviewing the policies and implementing best practices.

We believe that a good governance framework improves transparency and relationships with stakeholders and minimizes liabilities—all important elements for any corporation.

I would like to acknowledge the strong leadership of Mr. David C. Dingwall as President and CEO in 2003. His emphasis on collaboration and cooperation between the Board and the Executive has been central to our progress. We are strongly aligned with a common goal to grow the organization.

I would also like to extend my sincere thanks to each member of the Board for his or her active involvement and truly hard work last year, and to outgoing members Mr. Paul H. Bilodeau and Ms. Judith Kavanagh, whose input we will greatly miss. I would like to welcome Mr. Tom Taylor, Mr. J. Marc Brûlé and Mr. Ghislain Harvey, who join our team with new perspectives and new experience to share.

We made great progress in 2003 and I am proud to say that we have developed one of the strongest models of corporate governance for Crown corporations. I believe that the Mint continues to realize its vision of being “the global leader in minting through people, innovation and quality.”

Emmanuel Triassi
Chairperson

Message from the President and CEO

The past year was one of major transformation for the Royal Canadian Mint—of purposeful, deliberate and directed change.

It was a year in which we established stability within the organization. While our consolidated statement of operations and retained earnings shows an operating loss, when we exclude an exceptional item involving the residual loss from the sale of the Mint's jewellery business—we in fact ended the year with an income from continuing operations before income tax of more than $500,000.

In addition, the Mint will have generated over $28 million in revenue for the Federal Government in 2003 through seigniorage, attesting to the strength of the Mint's role as the producer of Canada's circulation coins.

Substantive changes were required to achieve these results. When I joined the organization in March 2003, I worked closely with the executive team to define an aggressive agenda for improvement, beginning with a significant reduction in operating costs. Specifically, $5.4 million was cut in 2003, and 2004 costs were reduced by $10 million.

At the Board level, a complete governance review was undertaken, through which greater clarity of roles and responsibilities and increased transparency have been achieved.

At the operational level, we introduced a *Lean Enterprise* program of continuous improvement into every division of the business, becoming the only Canadian Crown Corporation ever to do so and one of the few worldwide to have rolled *Lean* out across the organization within a six month time frame.

In the summer of 2003, the Mint launched a series of circulation and commemorative coins bearing the fourth effigy of Her Majesty Queen Elizabeth II in celebration of the 50th anniversary of Her Coronation.

In just one hour, all 1,000 issues of this 2003 Great Seal of Canada coin sold out. A numismatic collectible, the coin depicts the official stamp used to bring the authority of Her Majesty Queen Elizabeth II to documents produced on her behalf.

We refocused our lines of business, toppling departmental silos, and we renewed our focus on the Mint's core business: Canadian circulation coin production.

We worked diligently to reconnect with customers—through one-on-one consultations, customer events and national market research. This dialogue will be critical to our ongoing understanding of the needs of dealers, distributors and Canadians, and to our anticipation of new products that will appeal to them. To ensure greater reach to our customers, we began to actively pursue new retail channels of distribution.

While reorienting the business in the aforementioned ways to define and deliver value to the customer, we also elicited greater input from our employees. We formed a Leadership Council, providing staff with a forum for suggesting operational improvements and growth initiatives. We introduced quarterly reports on the activities of the organization and held our first all-employees annual meeting. Furthermore, we celebrated employee success through a formal Rewards and Recognition program.

We are creating a new Royal Canadian Mint. As a *Lean Enterprise*, we are becoming more responsive, flexible and adaptive to the dynamic environment in which we operate. We are putting customers first in all business activities, finding new ways to involve Canadians in coin design development, and forming new relationships to make us a more progressive Mint. And we are capitalizing on our powerful brand values of trust and quality to grow our business internationally. We are clearly defining lines of accountability and engaging employees in organizational improvement more than ever in Mint history.

Heading into 2004, we are strongly positioned for growth. We have accomplished much this past year, yet we have many challenges still ahead. I am confident that we can meet them. With an unwavering customer focus, and the sustained commitment and active involvement of our employees, we will have a profitable 2004 and build toward further growth in 2005.

Onward!

David C. Dingwall
President and CEO
The Royal Canadian Mint

The 2003 Commemorative Silver Dollar, launched in January, was the first struck in 99.99% pure silver, not sterling. It celebrates Cobalt, Ontario, as the foundation of Canada's silver-mining industry. The $100 14-Karat Golden Grain coin commemorates the 100th anniversary of the discovery of Marquis Wheat, and features a unique effect to highlight the wheat plant.

The cornerstone of *Lean Enterprise* is customer orientation. In all areas of business, the Royal Canadian Mint has embraced that philosophy, identifying customer needs and responding to them. For example, in 2004 the Mint will introduce new restrictions on mintage numbers for numismatic products. By limiting the number of coins in circulation, the Mint is enhancing their secondary market appeal and increasing value to dealers and collectors.

Lean and agile

In 2003, the Royal Canadian Mint significantly overhauled its operations, applying a *Lean Enterprise* approach to every aspect of the business. *Lean Enterprise* is a program through which an organization clearly defines value to the customer, then orients every function along the supply chain to deliver that value, eliminating cumbersome procedures and wasteful processes along the way.

While *Lean* had been incorporated previously into plant floor manufacturing procedures, 2003 marked the beginning of its holistic application to the corporation. Among the many continuous improvement projects initiated, the Mint will establish roll and wrap operations at its Winnipeg facility in January 2004, and adopted aggressive measures to significantly reduce lead times in new product development, engraving and die production, and bullion production. Complementing these initiatives, the Mint introduced bar coding at both of its plants to enable real-time inventory tracking; web analytics that allow measurement of the impact on sales of direct email campaigns; and a more responsive shipping system that facilitates more rapid order fulfillment.

As a *Lean Enterprise*, the Mint is gaining new flexibility to increase its volume of product designs, expand product promotion, accelerate throughput, eliminate errors and improve quality—to deliver optimal value to the customer.

the process

The Mint's Canadian Circulation Coin Distribution System is the global leader in forecasting the demand for coins. The Mint accurately measures demand on a daily basis, and identifies the required coin movements across the country.

Circulation coinage is minted in our Winnipeg plant. The one-cent coin is currently produced in two different compositions; Copper Plated Steel (CPS) and Copper Plated Zinc (CPZ). The Mint uses two different compositions to allow flexibility in its operations. This process will focus upon the CPS.

Realigned and reenergized

While introducing the *Lean Enterprise* model into Royal Canadian Mint operations, the management team embarked on a comprehensive review of the corporation's business lines—Canadian circulation coinage; Canadian numismatic products; foreign circulation and numismatic products; and gold bullion and refinery services.

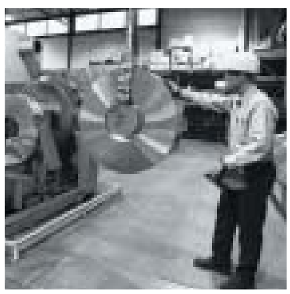
Each business line was recreated as its own enterprise, led by a dedicated Executive Director and subject to defined profit-and-loss accountability mechanisms. A renewed focus was placed on the Mint's core business—Canadian circulation coinage. A Director of Growth was also named to identify market opportunities and prospects for all business lines.

At the same time, other departments within the Mint, such as Marketing and Sales, Communications, Information Technology, Human Resources and Finance were reoriented as service organizations, supporting the individual objectives and tactics of each business line with the common aim of growing the business. As a result, interaction between divisions has increased, new synergies are emerging and functional silos are dissolving.

Seigniorage is the difference between the face value of circulation coins produced by the Mint and the costs of production and distribution. In 2003, the Royal Canadian Mint once again returned considerable seigniorage to the Government of Canada—roughly $28 million.

"In 2003, we renewed our focus on the Mint's core business: Canadian circulation coin production."

The core steel arrives in large coiled strips which are then fed into a high capacity punch, producing 22 blanks per strike at 600 strikes per minute.



The core metal blanks are then rimmed (a raising and slight rounding of the edges), annealed (heated to better receive the strike) and cleaned.

The Mint undertook a pilot test to explore the feasibility of circulation coin recycling. It teamed up with a Toronto company that sorts peoples' collections of old coins, recycling the accumulated nickel, copper, and plated steel coins. The program aims to eliminate dormant coin and increase the volume of plated steel coinage in circulation for easier processing by the vending and transit sectors.

In touch with customers

Improving its relationship with customers—Canadians, the federal Department of Finance, collectors, banks and others—was a primary goal for the Royal Canadian Mint last year. The Mint conducted a national Internet poll to test Canadians' openness to coin design changes. Seventy-six percent responded positively, and as a result, a new circulation program is being considered for 2004 that would celebrate beloved Canadian icons.

The Mint revived its National Coin Committee with Canada's major banks and armoured car companies to improve circulation coin inventory management. Sophisticated forecasting software was added to the Mint's circulation coin web tracking system, enabling more accurate prediction of coin volume requirements.

The Mint also reinvented its website as a true sales channel, issuing advance email alerts to subscribed members before each product launch. Web activity peaked: the 14 karat Great Seal of Canada coin (released in conjunction with the Golden Jubilee of Queen Elizabeth II) sold out in just one hour, and web sales for the year rose to $3.2 million from $2.8 million in 2002.

To increase visibility with Canadians, the Mint completed a full rebranding, for launch in 2004.

In May, the Mint issued this 2003 Canada Day Coloured Coin, designed by 14-year-old Jade Pearen of Kelowna, British Columbia. The coin was offered as Canada's official gift to new Canadians sworn in at citizenship ceremonies held during Celebrate Canada Week.

The core metal blanks are then submerged into different electrically charged chemical solutions, at various stages, to clean, charge, nickel plate, clean and then adhere the final copper plate.

The Mint's patented Multi-Ply Plating technique is the world's only multiple plate process that can match any electromagnetic signature of any traditional alloy coin. This capability is another feature that makes the RCM a valued coin maker to countries around the world.

The $20 Bricklin SV-1 silver and gold-plated cameo coin, launched in the spring, celebrates Canadian innovation in transportation. It features the gull-wing sports car designed by Malcolm Bricklin that took the automotive world by storm in 1974. The HMCS Bras d'or coin, the second issue in the Modern Innovations series, depicts the storied hydrofoil vessel of Cape Breton.

In the early part of 2003, 10 percent of the Mint workforce opted for a voluntary Early Retirement Package. When, soon after, President and CEO David Dingwall announced the introduction of *Lean Enterprise* into Mint operations, he assured employees that no further staff reductions were planned as a result of *lean* efficiencies.

Decisive and inclusive

2003 was a year of significant change at the Board level. The Directors undertook major improvements to the Mint's governance model. Proceeding with the review begun in 2002, the Board identified governance best practices, revisited Mint bylaws and formalized corporate policies. A detailed manual was published outlining clear policies on procurement, sponsorship and charitable giving, and travel and hospitality allowances. The Board clarified its organizational structure, responsibilities and accountability, and established performance targets and measurements for the Mint President and Executive. It created a formal workplan, according to which it will revisit its practices and policies regularly with the aim of continuous improvement.

At the same time, the Mint executive actively solicited input from employees on opportunities for improving efficiency within the organization. A Leadership Council was formed, group sessions were held—attended by management, union representatives and employees—and a dedicated Growth Registry was established, through which all ideas are tracked—from receipt and investigation, through testing, to abandonment or implementation. At year-end, some 230 improvements had been suggested and 41 had proceeded to investigation.

After plating, the coins are sorted and sent to the Mint's high volume striking line. The legendary "D" line is most often used for the one-cent coin, and can produce approximately 360,000 coins per day. The coins then move through an underground conveyor to the Mint's "roll and wrap" process.

Once the coins have been rolled and wrapped, they are shipped to the Mint's 22 coin pool sites across the country for final distribution to Canada's Financial Institutions based upon regional and individual demand

Directors and Officers

Board of Directors

Emmanuel Triassi
President and Principal
GROUP TEQ
Westmount, Québec
Chairperson,
Board of Directors

Timothy J. Spiegel
Principal
Spiegel, Skillen & Associates
Kelowna, British Columbia

Sheldon F. Brown
President
S. Brown Cresting Ltd.
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Chair, Human
Resources Committee

Ernie Gilroy
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J. Marc Brûlé
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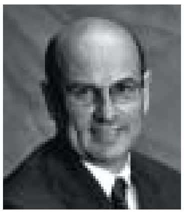
Chair, Audit Committee

Ghislain Harvey
Chairperson
Board of Directors
Centre d'accueil régional
(réadaptation) Centrari Inc.
Ville de la Baie, Québec

Senior Officers



David C. Dingwall
President and
Chief Executive Officer

Richard J. Neville
Vice-President
Finance and Administration
and *Chief Financial Officer*

Beverley A. Lepine
Chief Operating Officer

Brian Legris
Vice-President
Human Resources

Marguerite F. Nadeau
Vice-President
Corporate and Legal
Affairs

Nancy Cogger
Vice-President
Marketing, Sales and Growth

Management's discussion and analysis

The Royal Canadian Mint is one of the world's premier producers of circulation, collector and bullion investment coins for the domestic and international marketplace. The Mint also manages the supporting distribution system for Canadian circulation coins for the Government of Canada. In addition, the Mint is also one of the largest gold refiners in North America.

After two years of losses, the Mint's focus in 2003 was on financial stability. Operating costs were reduced by $5.4 million. It is anticipated that operating costs will be reduced by another $10 million in 2004, restoring the Mint to profitability. While improved productivity will continue to drive performance, the focus on marketing, innovation and delivering value to the Mint's customers will be the principal agent of growth in 2005 and future years.

In 2003, the income from continuing operations before income tax was $510,000, which was impacted by $2.4 million in restructuring costs allocated to an Early Retirement Program. A $2.7 million net loss from discontinued operations (net of taxes) was further absorbed, which resulted in an overall net loss of $3.0 million compared to $5.4 million in 2002.

Strategies for a *lean enterprise*

Lean manufacturing is a widely recognized concept that was adopted by the Mint's production facilities several years ago. In September 2003, the Mint expanded the concept of *lean* and its principles of removing waste and inefficiencies across the entire enterprise. Not only did this induce changes in the daily work of every employee, but the Mint was restructured under *lean* principles into four lines of business with Executive Directors responsible for the operating income of each business.

While specific goals and strategies have been established for each business line, there are areas of focus that have enterprise-wide impact.

Reducing inventories

A core focus under *lean* is the reduction in inventory of raw materials, work in process, and finished products. The value of inventory had decreased 34% to $16.4 million at the end of the year ($24.7 million—December 31, 2002). A significant portion of this improvement arose from the write-off of residual inventory from the Mint's .9999 jewellery line. Significant improvements were also achieved in inventories of metal supplies and finished product.

Management's discussion and analysis

Tightening supply relationships

Encompassed by this focus on reducing inventory was the determination to reduce the number of suppliers to the Mint from 1,600 to 250 by the end of 2004 to leverage the Mint's buying power. Only those suppliers who can deliver substantial benefit to the enterprise through cost savings, improved quality and just-in-time delivery will retain their relationship with the Mint. The criteria established under *lean* supplement the standards for suppliers established under ISO 9001-2000, achieved in Winnipeg in 2002 and in Ottawa in 2003.

Continuous improvements in manufacturing

In manufacturing, the perpetual cycle of improvements that is core to *lean* continues to enhance efficiency. The Mint's focus in 2003 was on improvements to the production of numismatic coins in Ottawa. Through process improvements, coin rejection rates at the press stage were reduced by as much as 75%. This reduction helps to lower costs and time to market. In Winnipeg, where Canada's circulation coins are produced, the plant continued to reduce variances and reject rates while improving throughput and capacity.

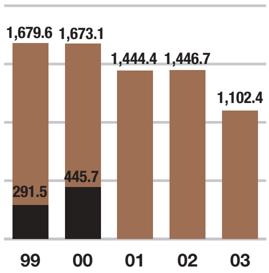
Specific improvements at the plants included:

- The full implementation of process controls through plant-wide bar coding
- New die coating technology to improve the longevity of dies
- Changes to the annealing processes to improve the surface finish on blanks
- A new lacquering process that improves the quality of the Mint's product while making its processes even more environmentally friendly

Improved marketing

To ensure the Mint is delivering value to its customers, another cornerstone of a *lean* enterprise, the Mint completed research into brand awareness, product development, pricing, usage and attitude, and consumer satisfaction. As a result, the Mint's Marketing and Sales team was realigned to focus marketing efforts by lines of business and sales efforts by customer channel. Strategies to improve value to customers and trigger growth in each business line are being developed.

Canadian circulation coin production (millions of pieces)
Millennium coin production (millions of pieces)



Canadian circulation coins

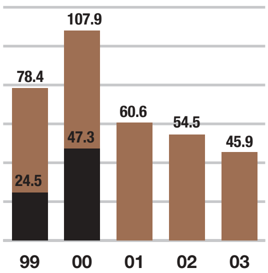
The Mint's core responsibility is the cost-effective production of quality coins for circulation in Canada. It is also responsible for the adequate supply and distribution of those coins across the country, which involves an effective working relationship with the financial institutions, vending industry, armoured car companies, and other stakeholders.

Operating and financial performance

Revenue from Canadian circulation coins declined 16% to $45.9 million ($54.5 million—2002). The total number of pieces produced decreased by 24% (1,102.4 million pieces—2003; 1,446.7 million pieces—2002).

Coins are essential to commerce and trade and the demand for coins depends on the economic health of a region. In 2003, the economy of Canada was significantly affected by the outbreak of severe acute respiratory syndrome (SARS). In Toronto, the city most seriously affected by SARS and the largest consumer of coins in Canada, shipments of coins dropped dramatically. Demand for 25-cent coins alone declined by 53% to 88 million coins from 187 million coins in 2002.

Canadian circulation coin revenue ($ in millions)
Millennium coin revenue ($ in millions)



Strategies for growth

Achieving growth in the production of Canadian circulation coins brings increased seigniorage for the Government of Canada. Seigniorage is the difference between the cost to produce and distribute coins and their face value. Since 1987, seigniorage has delivered over $1.6 billion in revenues to the Government and the Mint will have generated an additional $28 million in 2003. As in any business, production is driven by demand. Demand for the Mint's circulation coins is driven by the economy, the ability of the Mint to produce coins that capture the imagination of Canadians and the effectiveness of its sales and marketing efforts.

Market research undertaken by the Mint in late 2003 discovered that most Canadians are aware of the Mint, but do not feel that its products are relevant to them. Many, 76%, said they would like to see change. To capture the attention of Canadians, as it did in 1999 and 2000 with the Millennium coin program, the Mint is creating the infrastructure and processes necessary to allow it to develop more coins every year with themes that will be relevant to more people.

Management's discussion and analysis

Under *lean* principles, customer value is defined as a combination of product quality, cost and service. Implementation of the improvement projects, or "kaizens", identified under the *lean* process, will reduce both costs and the lead-time required to produce circulation coins. Within manufacturing, the goal is to reduce lead-time by 67 days or 35%, and improve inventory turnovers by 20% while continuing to meet the needs of our customers on-demand.

Improvements to lead time will also be achieved by rolling and wrapping finished coins at the manufacturing facility in Winnipeg. An outside supplier has traditionally fulfilled this final packaging step. The Mint is now implementing the processes to move coins directly from striking to roll-and-wrap machinery. It is expected costs will be reduced by 15% while eliminating the time required to transport coins to and from a supplier's facility.

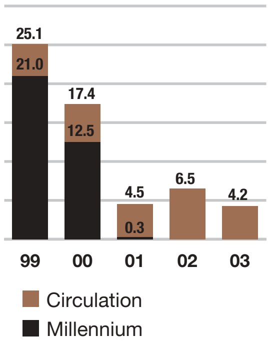
To improve its relationship with Canada's chartered banks, the Mint launched the Canadian Circulation Coin Distribution System (CCCDS). This system integrates sophisticated systems with three years of data on the movement of coins between the 22 coin pool sites in 11 cities across Canada to more accurately forecast national coinage requirements. This will result in more efficient transportation of coins between pool operators and regions, lower inventories, and, eventually, reduced requirements for new coins.

As part of its responsibility to manage the production and distribution of Canadian circulation coins at the lowest possible cost to the Government, the Mint is evaluating the effectiveness and impact of a pilot project to recycle coins that Canadians typically store. Under the pilot project, consumers could drop their coins into self-service coin counting machines at a local grocery store in exchange for a voucher that could be spent at the store. The program would improve relationships with Canada's banks, which prefer not to have coins in their own inventories, as it is a non-interest-bearing asset. The impact on the production of coins is still to be determined.

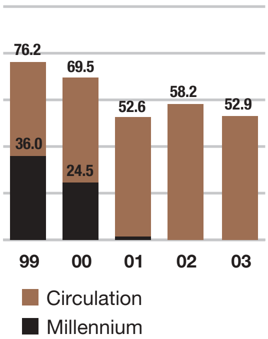
Outlook

The Mint's raison d'être is Canadian circulation coinage. In 2004, the corporate focus will be on building that business through improved value to customers through reduced costs and effective sales and marketing programs aimed at driving demand. There are also indications that a growing economy will boost coinage demand.

Canadian numismatic coins sold (millions of pieces)
Millennium coins sold (millions of pieces)



Canadian numismatic revenues ($ in millions)
Millennium coin revenues ($ in millions)



Numismatic coins

Canadian numismatic coins are considered to be among the most beautiful and popular coins in the world. These coins can play a significant role in capturing meaningful history and celebrating outstanding achievements through expressive designs and impeccable craftsmanship. The Mint produces gold, silver and platinum coins as well as uncirculated, specimen and proof coin sets that are issued every year. It also produces specialty coins.

Financial and operating performance

Revenue from numismatic coins decreased by 9% to $52.9 million ($58.2 million—2002). The sale of new and special edition coins increased by 9.4%. The sales of the Mint's traditional core numismatic products and other series such as the proof sets, proof dollar, and commemorative coins totalled $43.5 million.

Sales of numismatic products in 2003 were affected by the absence of a national event such as the 2002 Golden Jubilee celebration that captured public attention and drove higher than average sales levels.

Despite these challenges, the Mint's numismatic products continued to engage collectors. In 2003, laser technology was used to create a coin celebrating the 100th anniversary of the discovery of Marquis Wheat. This coin had a shaft of wheat imbued with a softer yellow colour than the surrounding 14-carat gold. This coin was launched with the Canadian Wheat Board and classroom meetings to bring the world of minting to a primary school demographic. The Mint also used holographic technology to imbed a double-image ribbon of colour depicting the Northern Lights, one of the coins in the Natural Wonders collection.

Strategies for growth

Recognizing that numismatic coins are attractive to collectors for their investment value as well as their artistry, the Mint is reducing the mintage of its coins to position every issue to sell out. In 2003, some products were produced to match orders received prior to manufacture. Such restrictions on the availability of coins will increase the urgency to own the coins while eliminating inventory at the Mint and improving the value of the coins in the secondary market. In turn, this will improve the Mint's relationships with dealers, distributors and collectors.

Just as the themes for circulation coins were thoroughly reviewed, the Mint examined its process for developing themes on numismatic coins. In the future, only themes that have been proven through market research to be capable of capturing the imagination of collectors will be produced. The Mint will also continue to push the boundaries of minting technology to develop original and distinctive effects that can make a coin especially appealing to collectors.

While desirable products are important in the traditional collector market, the Mint will also make an aggressive effort to provide better and more consistent service to dealers and distributors.

The Marketing and Sales team is also targeting the retail and gift giving markets in 2004. The Tiny Treasures and Oh Canada collections are being repackaged for broader market appeal, and wedding and graduation gifts have been developed. More retail channels are being developed and current retail partners are being involved in the design and packaging of products. An Electronic Data Interchange (EDI) infrastructure necessary to manage retail relationships has been completed. Finally, realizing that Canadian companies prefer to give employees Canadian-made gifts, the Mint has undertaken a strategy for developing a rewards and recognition product suite for the corporate gift market that will include, among other selections, a new line of coin watches.

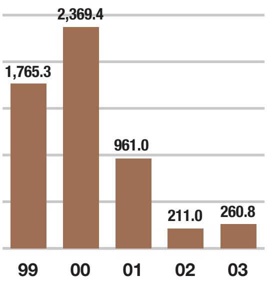
Other sales and marketing initiatives that will drive the performance of the Mint's numismatic business include:

- Packaging with a common look-and-feel will be developed for all of the Mint's products. Standard packaging will reduce costs and enhance brand recognition. It is expected to be ready for the launch of the 2005 product line.
- An improved process for responding to requests for quotes will be developed by mid-2004.
- A website strategy is being developed to expand sales to retail consumers, business partners and refinery customers. In 2003, web sales grew by 14% to $3.2 million ($2.8 million—2002), primarily due to diligent analytics and targeted email campaigns introduced during the second half of the year.

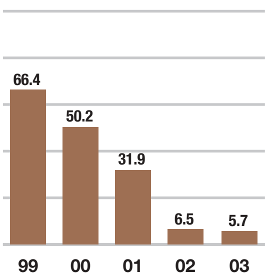
Outlook

It is anticipated that as the market becomes aware that the Mint restricts availability of its coins, they will become more desirable and the urgency to buy them before they are sold out will become increasingly intense. Although this is not expected to substantially increase demand for individual coins, it is expected to allow the Mint to produce a wider variety of coins that will appeal to a broader market.

Foreign circulation coins sold (millions of pieces)



Foreign circulation revenue ($ in millions)



Foreign circulation

The Mint has extensive experience in striking circulation and numismatic coins, ready-to-strike coins, blanks, and coin production tooling. From its original mandate to mint Canadian coinage, it has diversified its operations to produce coins of various sizes, shapes and alloys for countries around the world.

Financial and operating performance

Competition in the global circulation coin business remains intense while demand for coins from foreign governments continues to decline. At the same time, the impact of the introduction of the euro in 2002 continues to leave European mints with excess capacity and access to recycled coinage alloy materials. These competitors are able to submit bids for foreign contracts that are often below the Mint's break-even levels.

As a result, the Mint produced and sold 260.8 million blanks and coins for 7 countries (211 million pieces for 11 countries—2002), generating $5.7 million in revenue ($6.5 million—2002).

Strategies for growth

The Mint's patented Multi-Ply product and technology developed for Canadian coinage not only offers substantial cost savings and improved seigniorage for those governments that continue to circulate alloy coinage—it also has numerous technical advantages over the single-ply technology of other mints.

As the price of metals traditionally used in coins—nickel and copper—reach historic highs, the Mint's Multi-Ply technology becomes increasingly attractive, particularly to governments in countries where the cost of producing coins now exceeds their face value. The Mint has identified 24 countries where it can offer the most compelling argument for substantial reductions in costs and improvements in seigniorage.

The Mint has also continued to improve its Multi-Ply technology, developing the ability to match the electromagnetic signature (EMS) of any alloy with its plated material. This advancement was presented in Thailand in November to a technical conference of world mints where it generated significant interest. Matching the EMS signal is essential to countries considering the conversion and is one of the distinguishing advantages of the Mint's Multi-Ply technology, ensuring that automated merchandising in the country will not be disrupted.

Management's discussion and analysis

Outlook

The International Monetary Fund has forecast continued weak growth in Europe in 2004, but a much brighter situation in developing countries, where most foreign coinage is sold. The Mint will continue to offer its services internationally, but the strategic focus will be on select countries where the probability of securing profitable contracts is greatest. The Mint has secured contracts to supply Multi-Ply coinage to Ecuador, Panama, Bolivia and Uganda, where the sales process to many of those countries involved convincing the government to change the legislation that defines currency specifications.

Bullion and Refinery

The Mint produces and markets a family of Gold and Silver Maple Leaf bullion coins and gold wafers. Experience, integrity, security, accuracy and liquidity have all contributed to developing the confidence of the international investment community in the Mint's investment products.

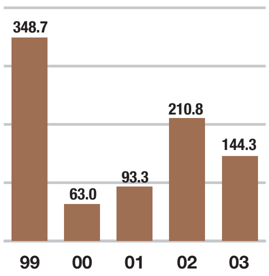
The Mint also operates a gold refinery with a production capacity of 4.2 million troy ounces per year. It refines and recasts gold for Canadian and foreign customers, both private and governmental, offering value-added products and services such as bullion storage, gold granules used in the jewellery industry and industrial applications, gold wafers and bars, as well as assaying and consulting services.

Financial and operating performance

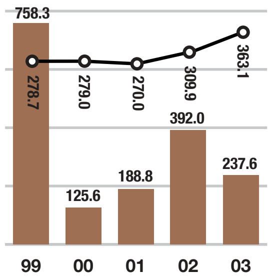
Bullion and Refinery revenue declined 31% to $147.4 million ($214.1 million—2002). Although worldwide demand for bullion and for the Mint's bullion products remained strong in 2003, revenue in 2002 included an extraordinarily large sale to a single customer. In 2003, the Mint sold 237,600 ounces of gold bullion (392,000 ounces—2002).

The rally in the price of precious metals that began with the events of September 11, 2001 continued as the geopolitical environment remained tense and the U.S. dollar weakened. At the same time, gold producing companies continue to reverse the hedges on their production. The price of gold has encouraged producing companies to open old mines and develop new mines, but it will take some time for this production to come onto the marketplace.

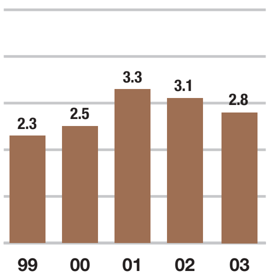
Bullion product revenue
($ in millions)



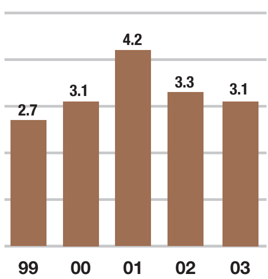
Sales of gold bullion products (thousands of ounces)
Average price of gold
(US$ per ounce)



Refining services
(gross weight received
in millions of troy ounces)



Refining services revenue
($ in millions)



Demand for the Mint's Gold Maple Leaf was strong during the early months of 2003 but slowed in the second quarter with the end of the war in Iraq and profit taking in the secondary market. While sales in the United States were positive, patriotism encouraged U.S. buyers to choose the 91.66% gold Eagle over Canada's 99.99% pure Gold Maple Leaf.

The Mint's refining business continues to be challenged by the over-capacity of refining services in domestic and international markets. Rates have declined so substantially that shipping costs are often greater than the refining costs, and the location of the Mint's refinery in Ottawa can present a challenge to securing contracts.

Strategies for growth

Bullion is a commodity and refining a commonly available service, but as a Crown Corporation of the Canadian Government, the Mint is seen to be extraordinarily trustworthy. The Mint's refinery must continue to develop a distinguishing advantage over its peers through the quality and depth of service that it provides to customers. In 2004, for example, it is developing the facility to post assay results to a trusted account the moment they are available as well as the capability to return platinum and palladium to customers.

The corporate-wide Enterprise Resource Planning (ERP) system that had been implemented in other areas of the Mint's operations was extended to the refinery, bringing improved manpower and machine scheduling, reporting, costing, metallurgical balance reporting and refined tracking of gold, silver and platinum coming into the Mint.

In 2004, the design on the Gold Maple Leaf (GML) will be changed to commemorate the 25th anniversary of the GML program. This will be the first change in the coin since its launch in 1979. The Mint will also make a fractional set, expanding the accessibility of the coins to more investors.

Outlook

In late 2003, it was anticipated that gold and silver prices would increase modestly in 2004 without resolution in the geopolitical environment. Gold and silver prices will also be affected by the flow of funds from the weak performing bond market into bullion.

Management's discussion and analysis

The Mint anticipates a modest increase in demand for bullion with the U.S. again representing the strongest market. While the Mint will be well positioned for growth with the newly designed Gold Maple Leaf, patriotism may continue to encourage U.S. buyers to choose the Gold Eagle over the Gold Maple Leaf coins. The Japanese market continues to be dominated by one seller, a central bank that is attempting to liquidate its gold holdings. In Europe, the market is flooded with gold coins that are being inherited by a generation that would prefer cash.

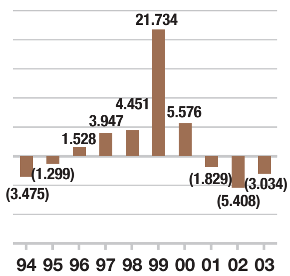
The Mint will continue to build strategic relationships and strive to increase sales by ensuring that the market is aware of its differentiating strengths. The sales team will continue to vigorously promote its products and to nurture existing customer relationships.

Consolidated financial performance

The Mint's net loss for the year was $3.0 million compared to a net loss of $5.4 million in 2002. Of the loss, $2.7 million (net of taxes) is related to discontinued operations and $2.4 million is related to restructuring costs allocated to an Early Retirement Program. Excluding the exceptional item of the discontinued operations, the Mint saw an income from continuing operations before income tax of $510,000. The key factors behind the year's results include:

- Revenue declined 27% to $254.7 million from $350.4 million in 2002. Revenue in three business lines declined: bullion and refinery (31%), foreign circulation coins (12%) and numismatic coins (9%). Revenue from Canadian circulation coins decreased by 16%.
- Operating expenses declined 1% to $52.2 million ($52.5 million—2002) as the process of eliminating waste and inefficiency under the concepts of *lean* enterprise were extended from manufacturing to every department at the Mint.
- Between March and July, the Mint reduced staff by 14% primarily through an Early Retirement Program. Individuals targeted under the program were identified by age and technical expertise under the covenants of the succession planning. Because the reduction in staff took place later in the year, benefits will not be fully felt until 2004.
- The remaining inventory from the Mint's discontinued line of .9999 jewellery was sold, incurring a $1.8 million write-off.

10-year net income (loss)
($ in millions)



Operating costs

Operating costs, including cost of goods sold and the costs of marketing, administration and depreciation were $252.4 million, a decrease of 28% over costs of $349.7 million in 2002. Cost of goods sold, which represents 79% of total operating costs (85%—2002), decreased 33% to $200.2 million ($297.1 million—2002). This decrease reflects the lower volumes of bullion wafers and coins, numismatic coins and Canadian circulation coinage and the increased price of gold.

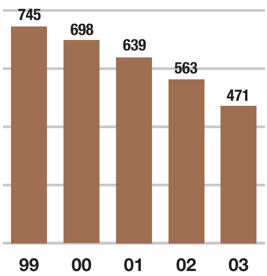
Administrative costs

Administrative costs decreased to $21.0 million from $21.8 million in 2002. The decrease reflects a determined effort to control discretionary expenditures to match the decline in demand for the Mint's products and services. Administrative costs as a percentage of revenue increased to 8%.

Human resources management

Employment at the Mint declined to 471 persons by the end of 2003 (563 persons—December 31, 2002), including both permanent and temporary employees. Wages and benefits decreased to $30.9 million ($32.3 million—2002). The decline reflects the drop in demand for the Mint's products and services and the decision to reduce employment at the Mint, primarily through a targeted and voluntary Early Retirement Program.

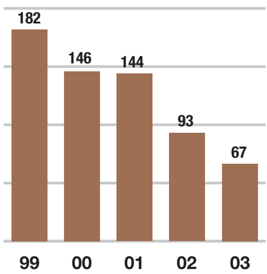
Number of employees
(at December 31)



The reduction in staff took place prior to the introduction of *lean* enterprise. One of the principles of *lean* is to encourage employees to eliminate waste and inefficiency without jeopardizing jobs. The operating principle is that *lean* leads to growth and the need for all employees on staff to support new initiatives.

Spending on skills development declined to $0.4 million ($0.5 million—2002). Programs focused on the continued implementation of the Mint's succession plan. Many of the employees in manufacturing are expected to retire over the next five to ten years. It is essential that the necessary skills be developed and that critical, proprietary information resident in retiring employees, particularly information related to maintaining quality and efficiency, be documented and shared with other employees.

Value-added sales revenue per employee ($ in thousands)



The Mint will begin collective bargaining with the Amalgamated Transit Union, which represents the approximately 20 protective services officers in Ottawa, and the Public Service Alliance of Canada, representing approximately 350 workers. Both contracts expire December 2004.

Management's discussion and analysis

Occupational safety and health

The accident frequency rate increased slightly to 2.6 (2.0—2002). The severity rate declined to 17.5 (54.1—2002). During 2003, the effectiveness of awareness programs and training introduced in 2002 were reviewed and situations or problems that could endanger the well-being of the Mint's workforce were identified and resolved. An audit was conducted at the Winnipeg facility and site managers given the support and training to allow them to assume greater responsibility for health and safety at the plant.

Operating results

Income from continuing operations increased to $510,000 from a loss of $220,000 in 2002. Gross profit margin increased to 21% from 15% in 2002. Changes in the Mint's operating income reflect the determination to reduce costs by $5.4 million during the year.

Interest income increased to $575,000 compared to $496,000 in 2002. Interest expense in 2003 was $1.8 million compared to $1.9 million last year, related primarily to the debt for the plating facility.

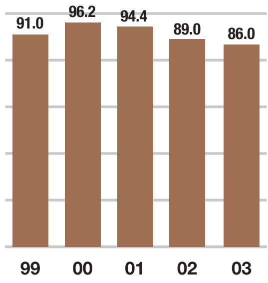
Depreciation expense increased to $8.5 million from $8.1 million in 2002.

Liquidity and capital resources

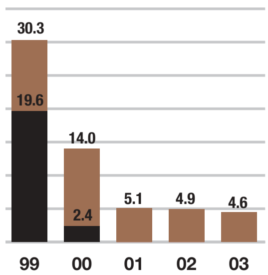
Cash and short-term investments increased to $23.5 million from $18.9 million at the end of 2002. The increase reflects improved management of accounts receivable, inventories and accounts payable. Throughout the year, the Mint was able to fund operations and capital expenditures with minimal short-term borrowing. The Mint's debt-to-equity ratio declined to 0.29:1.

Capital expenditures: Total capital expenditures in 2003 were $4.6 million ($4.9 million—2002). The Mint's capital spending program in 2003 was focused on improving the Mint's operating efficiencies, reliability and flexibility. The major capital projects included a network infrastructure upgrade, a new point-of-sales system and an upgrade to the Mint's order processing system. Plant capital expenditures included an enhancement to the refinery ventilation system, a roughing mill control system upgrade, as well as nitriding furnace upgrades.

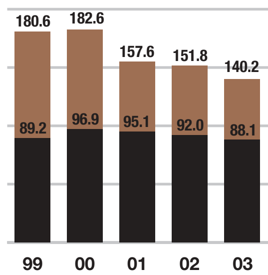
Shareholder's equity
($ in millions)



Capital expenditures
($ in millions)
Expenditures
Plating expenditures



Total assets
Net capital assets
($ in millions)



Financing: By December 31, 2003, the Mint had reduced the plating facility debt by $3.1 million to $18.6 million with a scheduled repayment of capital. The Mint also made a scheduled $1.3 million repayment of principal and interest on a 10-year debt due December 2007 with the outstanding principal now reduced to $4 million.

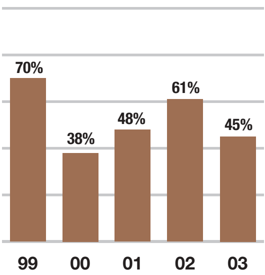
Risks to performance

Precious metal risk: The Mint purchases three precious metals—gold, silver and platinum. These metals are used in the Maple Leaf and numismatic coins. The Mint is not exposed to risk as a result of changes in the price of metals used for the bullion coins and wafers because the purchase and sale of metals used in these products are completed on the same date, using the same price, and in the same currency. For numismatic products, risk is mitigated through a precious metal risk management hedging program involving forward contracts and options. At the end of 2003, the Mint had four precious metal forward contracts in place related to the purchase of 6,000 ounces of gold and 600,000 ounces of silver for the Mint's coin program.

Base metal risk: The Mint purchases a wide range of alloys made from a handful of base metals for the production of domestic and foreign circulation coins. The most significant of these base metals are nickel, copper and steel, for which the market continues to be very volatile. The Mint has developed relationships with strategic vendors to secure supplies and manage costs in these difficult market conditions. Locking in the metal value only when a contract is awarded reduces the Mint's exposure to metal price fluctuation.

Foreign exchange rate risk: A portion of the Mint's revenue arises from exports. Any foreign exchange rate risk is mitigated by pricing contracts in the same currency as the expenses to be incurred and through an active currency hedging program.

Exports sales as a percentage of total revenue



Management's discussion and analysis

Outlook

The Mint completed 2003 with a new management structure, vastly improved control over costs, and a deeper understanding of its marketplace. It had established a team of people from every corner of the business, giving them responsibility for encouraging, developing and tracking ideas. This growth team will enable the Mint to identify and capitalize on a wider variety of growth opportunities. In addition, the Mint had undertaken a review of its information technology system to ensure it can support the growth anticipated from the *lean* initiatives.

Late in 2003, the Mint launched the Product Lifecycle Management project (PLM). This project will give the Mint a sophisticated technological capability that integrates four critical components: three-dimensional modeling, virtual sculpting, knowledge management and automation of work flow between departments and processes. It is anticipated PLM will result in annual savings of approximately $400,000 while improving transparency, accountability and collaborative teamwork. It will also significantly decrease the time required to bring a new product to market, a critical factor in the ultimate success of new products and the Mint's ability to capture sales.

Excluding an extraordinary item relating to the discontinued operations, the Mint would have achieved a net income from continuing operations of $510,000 in 2003. With the profitable performance in the fourth quarter and the $10 million reduction in operating costs planned for 2004, the outlook for sustained profitability is good.

The PLM project and adoption of *lean enterprise* management are only two examples of the Mint's ability to respond to its customers' needs through continuous and effective communication while meeting its own goal of streamlining business practices. Such ambitious innovations will enable the Mint to successfully emerge from the challenging economic environment well-positioned to be profitable in 2004. It also establishes a solid foundation for substantial growth in 2005 and beyond.

Since its incorporation in 1969, the Mint has been a partner with the Government of Canada, generating substantial seigniorage revenues while celebrating Canada's heritage with the public. It has also established itself as one of the leading mints in the world. This foundation combined with the improvement brought by *lean* will ensure the Mint continues to provide value to the Government of Canada, the people of Canada, its employees and its customers

Statistics

Table 1—Canadian circulation coinage

Production in 2001, 2002 and 2003 [1]

	2003 Total Pieces	2002 Total Pieces	2001 Total Pieces
Coinage dated 2000			
$2		–	33,000
$1		–	–
50¢		–	14,000
25¢		–	1,665,000
10¢		–	1,673,000
5¢		–	2,253,000
1¢		–	9,939,000
Coinage dated 2001			
$2		–	11,910,000
$1		–	–
50¢		–	389,000
25¢		3,620,000	60,562,000
10¢		–	270,792,000
5¢		6,000	166,686,000
1¢		864,000	918,495,000
Coinage dated 2002			
$2	**12,000**	27,008,000	–
$1	**(1,000)**	2,302,000	–
50¢	**–**	14,440,000	–
25¢	**4,880,000**	183,112,000	–
10¢	**1,285,000**	251,278,000	–
5¢	**1,598,000**	134,362,000	–
1¢	**325,000**	829,715,000	–
Coinage dated 2003			
$2	**11,244,000**	–	–
$1	**5,102,000**	–	–
50¢	**–**	–	–
25¢	**82,767,000**	–	–
10¢	**162,399,000**	–	–
5¢	**92,781,000**	–	–
1¢	**740,028,000**	–	–
Total (all dates)			
$2	**11,256,000**	27,008,000	11,943,000
$1	**5,101,000**	2,302,000	–
50¢	**–**	14,440,000	403,000
25¢	**87,647,000**	186,732,000	62,227,000
10¢	**163,684,000**	251,278,000	272,465,000
5¢	**94,379,000**	134,368,000	168,939,000
1¢	**740,353,000**	830,579,000	928,434,000
Total	**1,102,420,000**	1,446,707,000	1,444,411,000

(1) Figures are rounded to the nearest thousand pieces.

Statistics

Table 2 – Canadian circulation coinage

Cumulative production up to December 31, 2003 (1) (2)

	1999	2000	2001	2002	**2003**
$2	25,130,000	29,880,000	11,910,000	27,020,000	**11,244,000**
$1	–	–	–	2,301,000	**5,102,000**
50¢	496,000	573,000	389,000	14,440,000	**–**
25¢	258,888,000	435,752,000	64,182,000	187,992,000	**82,767,000**
10¢	258,462,000	160,798,000	270,792,000	252,563,000	**162,399,000**
5¢	124,861,000	110,767,000	166,692,000	135,960,000	**92,781,000**
1¢	1,089,625,000	771,909,000	919,359,000	830,040,000	**740,028,000**

(1) Total coins of each date and denomination, regardless of the calendar year in which they were produced.

(2) Figures are rounded to the nearest thousand pieces.

Table 3 – Canadian circulation coinage

Coinage issued in 2003 (1) – Geographic distribution (2)

Province City (3)	**$2**	**$1**	**50¢**	**25¢**	**10¢**	**5¢**	**1¢**
Newfoundland							
St. John's	250,000	242,000	–	642,000	1,682,000	1,558,000	12,080,000
New Brunswick							
Saint John	272,000	376,000	–	2,214,000	9,258,000	934,000	1,495,000
Nova Scotia							
Halifax	70,000	228,000	–	2,296,000	1,240,000	6,874,000	46,515,000
Québec							
Montréal	300,000	360,000	–	26,446,000	47,050,000	21,160,000	125,438,000
Ontario							
Ottawa	1,208,000	531,000	–	8,418,000	17,650,000	10,960,000	53,878,000
Toronto	3,569,000	2,593,000	–	6,072,000	31,448,000	7,352,000	225,987,000
Manitoba							
Winnipeg	–	971,000	–	300,000	6,670,000	2,690,000	39,248,000
Saskatchewan							
Regina	300,000	–	–	800,000	3,635,000	1,976,000	20,585,000
Alberta							
Calgary	–	–	–	2,234,000	10,328,000	7,028,000	52,765,000
Edmonton	750,000	148,000	–	5,192,000	14,830,000	9,376,000	61,767,000
British Columbia							
Vancouver	1,843,000	327,000	–	10,006,000	23,385,000	13,408,000	86,190,000
Sundry persons (4)	97,000	152,000	177,000	512,000	477,000	416,000	1,690,000
Total	**8,659,000**	**5,928,000**	**177,000**	**65,132,000**	**167,653,000**	**83,732,000**	**727,638,000**

(1) Figures are rounded to the nearest thousand pieces.

(2) The dates on the coins are not always the same as the calendar year in which they were issued.

(3) The coins were issued to financial institutions in these cities.

(4) The figures for Sundry persons do not include numismatic coinage purchases.

Table 4 – Canadian numismatic coinage

Issued as of December 31, 2003 bearing the dates 2002 and 2003 [1]

	2003	2002 [2]
Platinum Proof Coin Set [3]	**354**	449
Platinum Maple Leaf Hologram Set [6]	**–**	499
.99999 Gold Coin	**1,702**	2,001
22-Karat Gold Coin	**3,983**	5,754
14-Karat Gold Coin	**9,858**	9,994
Silver Lunar Cameo Coin Series	**52,086**	60,464
Proof Sterling Silver Dollar	**86,543**	121,642
Proof Sterling Silver Dollar—Coronation	**29,586**	–
Queen Mother Proof Sterling Silver Dollar	**–**	9,994
Brilliant Sterling Silver Dollar	**50,288**	65,410
Proof Set [4]	**60,282**	65,315
Special Edition Proof Set—Golden Jubillee [4]	**–**	33,490
Special Edition Proof Set—Coronation [4]	**21,400**	–
Specimen Set [5]	**40,562**	67,672
Uncirculated Set [5]	**93,515**	100,467
Special Edition Uncirculated Set—Golden Jubilee [5]	**–**	49,869
Special Edition Uncirculated Set—New Effigy [5]	**56,471**	–
Tiny Treasures Uncirculated Gift Set [5]	**43,252**	51,491
Oh Canada ! Uncirculated Gift Set [5]	**50,762**	61,484
$20 Sterling Silver Hologram Cameo Coins (Land, Sea, and Rail Series)	**31,403**	35,944
$150 18-Karat Gold Hologram Coin	**3,845**	6,843
Golden Tulip 50-cent Sterling Silver Coin	**–**	19,986
50 cent Sterling Silver Coin (Canadian Festivals Series)	**26,178**	61,900
50 cent Sterling Silver Coin (Canadian Folklore and Legends Series)	**–**	19,789
5-cent Steling Silver Coin (Vimy Ridge)	**–**	23,280
1 Ounce Silver Maple Leaf Coloured Coin	**27,707**	29,509
1 Ounce Silver Maple Leaf Hologram Coin	**29,727**	29,970
1912 Commemorative $5 and $10 Gold Coin Set	**–**	2,001
1/4 Ounce Gold Maple Leaf Lasered Coin	**1,000**	–
Golden Daffodil 50-cent Sterling Silver Coin	**35,462**	–
Niagara Falls $20 Fine Silver Hologram Coin	**29,779**	–
Rocky Mountains $20 Fine Silver Coloured Coin	**25,879**	–
Coronation 24-Karat Gold Coin	**1**	–
Golden Jubilee 24-Karat Gold Coin	**1**	–
Great Seal of Canada 14-Karat Gold Coin	**985**	–
Queen Elizabeth II Stamp and Coin Set	**14,739**	–
Silver Maple Leaf Hologram Five Coin Set	**25,517**	–
25-Cent Coloured Coin (Canada Day)	**60,184**	49,901
Triple Cameo Coin	**–**	999
Golden Jubilee Keepsake Booklet (five coins)	**–**	194,821
Golden Jubilee Keepsake Booklet (ten coins)	**–**	107,862
	913,051	1,288,800

(1) Coins reported as issued are not necessarily all delivered in the same calendar year and therefore do not correspond to reported sales.

(2) Revised figures.

(3) Four-coin set.

(4) Eight-coin set, including a $2, $1, (925 Ag) and a $1 (aureate).

(5) Seven-coin set.

(6) Five-coin set.

Statistics

Table 5 – Maple Leaf coinage

Sales in ounces for 2002 and 2003

	2003	2002
Gold Maple Leaf Coinage		
$50 (9999 Au)	**194,631**	344,883
$20 (9999 Au)	**11,735**	14,353
$10 (9999 Au)	**5,807**	10,735
$5 (9999 Au)	**2,694**	4,502
$1 (9999 Au)	**778**	857
Total (ounces)	**215,645**	375,330
Silver Maple Leaf Coinage		
$5 (9999 Ag)	**684,750**	576,196
Total (ounces)	**684,750**	576,196

Table 6 – Refinery operations

For 2002 and 2003

	Gross weight (Troy ounces)		Refined gold (9999) produced (Troy ounces) (1)		Refined silver (999) produced (Troy ounces) (2)	
	2003	2002	**2003**	2002	**2003**	2002
Deposits from Canadian Mines						
Québec	**220,504**	253,828	**153,205**	152,086	**22,209**	16,850
Ontario	**513,277**	524,661	**368,920**	376,681	**50,902**	50,920
Total	**733,781**	778,489	**522,124**	528,767	**73,111**	67,770
Deposits from other sources	**2,105,836**	2,365,576	**1,776,286**	2,105,798	**133,528**	116,616
Total	**2,839,617**	3,144,065	**2,298,410**	2,634,565	**206,639**	184,386

(1) Expressed in terms of Troy ounces of fine gold.

(2) These figures refer only to the silver produced as a by-product of the refining of gold.

Management report

The consolidated financial statements contained in this annual report have been prepared by Management in accordance with Canadian generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions of the Corporation and of its wholly-owned subsidiary are in accordance with the *Financial Administration Act* and regulations and, as appropriate, the *Royal Canadian Mint Act*, the by-laws of the Corporation, and the charter and by-laws of its wholly-owned subsidiary.

The Board of Directors is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the consolidated financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the consolidated financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the consolidated financial statements and reports to the Minister responsible for the Royal Canadian Mint.

Emmanuel Triassi
Chairperson

Richard J. Neville, F.C.A.
Vice President, Finance and
Administration & CFO

Ottawa, Canada
March 5, 2004

Auditor's report

To the Minister of National Revenue

I have audited the consolidated balance sheet of the Royal Canadian Mint as at December 31, 2003 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and, as appropriate, the *Royal Canadian Mint Act*, the by-laws of the Corporation and the charter and the by-laws of its wholly-owned subsidiary.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 5, 2004

Consolidated balance sheet

as at December 31 (in thousands of dollars)

	2003	2002
Assets		
Current		
Cash	$ 1,448	$ 1,452
Short-term investments (note 3)	21,999	17,460
Accounts receivable	9,735	13,761
Prepaid expenses	1,333	1,718
Inventories (note 4)	16,388	24,675
	50,903	59,066
Deferred charges	1,163	757
Property, plant and equipment (note 5)	88,095	91,971
	$ 140,161	$ 151,794
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 19,385	$ 25,445
Current portion of loans (note 6)	5,542	5,782
Deferred revenues	875	2,526
	25,802	33,753
Long-term		
Deferred revenues	2,776	–
Loans (note 6)	19,000	23,358
Future tax liabilities (note 7)	23	93
Employee future benefits (note 8)	6,606	5,602
	28,405	29,053
Shareholder's equity		
Share capital		
(authorised and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	45,954	48,988
	85,954	88,988
	$ 140,161	$ 151,794

Commitments (note 11)

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board of Directors

Emmanuel Triassi
Chairperson

Recommended for approval on behalf of the Audit Committee

J. Marc Brûlé, CA
Chair

Approved by Management

Richard J. Neville, FCA
Vice President, Finance and Administration & CFO

Consolidated statement of operations and retained earnings

for the year ended December 31 (in thousands of dollars)

	2003	2002
Revenues	$ 254,666	$ 350,360
Cost of goods sold	200,170	297,134
Gross profit	54,496	53,226
Other operating expenses		
Marketing and Sales	20,294	22,650
Administration	20,994	21,808
Amortization	8,498	8,061
Restructuring (note 12)	2,434	–
	52,220	52,519
Income from operations	2,276	707
Net foreign exchange gains (losses)	(513)	440
Interest income	575	496
Interest expense	(1,828)	(1,863)
Income/(loss) from continuing operations before income tax	510	(220)
Income tax expense (note 7)	(854)	(206)
Net loss from continuing operations	(344)	(426)
Net loss from discontinued operations—net of taxes (note 13)	(2,690)	(4,982)
Net loss	(3,034)	(5,408)
Retained earnings, beginning of year	48,988	54,396
Retained earnings, end of year	$ 45,954	$ 48,988

The accompanying notes are an integral part of these statements.

Consolidated cash flow statement

for the year ended December 31 (in thousands of dollars)

	2003	2002
Cash flows from operating activities		
Cash receipts from customers	$ 260,014	$ 354,514
Cash paid to suppliers and employees	(243,757)	(331,299)
Interest received	575	496
Interest paid	(1,828)	(1,863)
Income taxes	(1,233)	1,424
	13,771	23,272
Cash flows from investing activities		
Purchase of short-term investments	(4,539)	(17,460)
Purchase of property, plant and equipment	(4,638)	(4,967)
	(9,177)	(22,427)
Cash flows from financing activities		
Repayment of loans	(4,598)	(4,630)
Net decrease in cash	(4)	(3,785)
Cash at the beginning of year	1,452	5,237
Cash at the end of year	$ 1,448	$ 1,452

The accompanying notes are an integral part of these statements

Notes to consolidated financial statements

December 31, 2003

1. Authority and objectives

The Mint was incorporated in 1969 by the *Royal Canadian Mint Act* to mint coins in anticipation of profit and carry out other related duties. The Mint is an agent Corporation of Her Majesty named in Part II of Schedule III to the *Financial Administration Act*. It produces all of the circulation coins used in Canada and manages the support distribution system for the Government of Canada. The Mint is one of the world's foremost producers of circulation, collector and bullion investment coins for the domestic and international marketplace. It is also one of the largest gold refiners in North America.

In 2002, the Mint incorporated RCMH-MRCF Inc., a wholly-owned subsidiary, to hold the Mint's interest (50%) in TGM Specialty Services Inc., a joint venture with a private sector partner. TGM Specialty Services Inc.'s objective is to offer packaging products and services to domestic and international markets.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and terms and conditions. Since March 1999, following the enactment of changes to the *Royal Canadian Mint Act*, the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $75 million.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Corporation are:

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary. Its interest in the joint venture is proportionately consolidated.

b) Short-term investments

Short-term investments consist of investments in money market instruments with terms to maturity of 12 months or less. These investments are carried at cost, which approximates market.

c) Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method. Work in process and finished goods are valued at the lower of cost and net realisable value, cost being determined by the average cost method.

d) Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2.5%
Buildings	2.5%
Equipment	10%
Hardware and software	20%

e) Deferred revenues

Payments received in advance on sales are not recognized as revenue until the products are shipped.

f) Deferred charges

The cost incurred for specific projects in advance of sales are not recognized as expenses until the products are shipped.

g) Employee future benefits

i) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

ii) Other benefits

Employees are entitled to a severance benefit plan. These benefits are accrued as the employees render the services necessary to earn severance benefits. The cost of the benefits earned by the employees is actuarially determined using the projected benefit cost method projected on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the remaining service period of active employees.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is self-insured. As a self-insured employer, the Corporation is accountable for all such liabilities incurred since incorporation. Liability for workers' compensation benefits is actuarially determined based on known awarded disability and survivor pensions and other potential future awards in respect of accidents that occurred up to the value measurement date. The benefit entitlements are based upon relevant provincial legislations in effect on that date.

An accrued post-employment benefit obligation representing the continuation of certain employer paid benefits for employees on long-term disability is also actuarially determined. The determination takes into account expected mortality, recoveries and health care and dental trend rates. The excess of the net actuarial gain (loss) over 10% of the obligation is amortized over a period of 10 years, which is consistent with the average duration of these liabilities.

h) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date, or, when hedged, at rates prescribed by foreign currency contracts. Revenue and expense items are translated at average exchange rates during the year. All exchange gains and losses are included in determining net income for the year.

i) Income tax

Income tax expense is determined using the liability method, whereby the future income tax component is recognized on temporary differences using substantively enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences between the carrying values of assets or liabilities used for tax purposes and those used for financial reporting purposes arise in one year and reverse in one or more subsequent years. In assessing the realizability of future tax assets, management considers known and anticipated factors impacting whether some portion or all of the future tax assets will not be realized. To the extent that the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

j) Derivative financial instruments

The Corporation uses derivative financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and precious metal prices. The Corporation's policy is not to utilise derivative financial instruments for trading or speculation purposes.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset the cash flows of the hedged position and the timing is similar.

Gains or losses related to derivatives that are hedges are deferred and recognized in the same period as the corresponding hedged positions. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date.

Accounting Guideline 13: Hedging Relationships, issued by the Canadian Institute of Chartered Accountants, comes into effect for the Mint's fiscal year beginning January 1, 2004. The new standard sets out more stringent criteria that hedging relationships must meet in order for the Corporation to continue its current accounting for derivative financial instruments. If these criteria are not met, the derivative financial instrument must be measured at fair value on the balance sheet with all changes in fair value recorded in income.

k) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the year. The inventory valuation allowance, employee-related liabilities and estimated useful lives of plant and equipment are the most significant items where estimates are used. Actual results could differ from those estimated.

3. Short-term investments

In accordance with the Corporation's short-term investment policy, all investments in Corporate entities must be rated R-1 low or better by the Dominion Bond Rating Service (DBRS) and investments in banking entities must be rated AA or better by Moody's or Standard and Poors. The investment vehicles consist primarily of commercial paper. The overall portfolio yield as at December 31, 2003 was 2.83% (2002 was 2.99%) and the average term to maturity is 27 days (2002 was 26 days). The fair market value of the investment portfolio at year-end approximates the book value.

4. Inventories

(in thousands of dollars)

	2003	2002
Raw materials	$ 8,748	$ 7,744
Work in process	4,905	4,504
Finished goods	2,160	10,921
Supplies	575	1,506
	$ 16,388	$ 24,675

5. Property, plant and equipment

(in thousands of dollars)

			2003	2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 3,226	$ –	$ 3,226	$ 3,266
Land improvement	922	753	169	175
Buildings	76,065	25,336	50,729	51,808
Equipment	82,610	53,474	29,136	32,403
Hardware and software	14,132	9,297	4,835	4,359
	$ 176,955	$ 88,860	$ 88,095	$ 91,971

6. Loans

(in thousands of dollars)

	2003	2002
10-year loan due December 2007, bearing interest at 5.840% calculated semi-annually with the principal repayable in ten equal annual installments commencing December 1998	$ 4,000	$ 5,000
Amortizing bond with two year interest holiday maturing December 2009, semi-annual coupon at 7.753% starting June 2000 with principal repayable in ten equal installments commencing December 2000	18,600	21,700
Accrued interest on bond	1,942	2,440
	24,542	29,140
Less the current portion of loans	5,542	5,782
	$ 19,000	$ 23,358

The 10-year loan listed above is with Export Development Canada (EDC). EDC is a Crown corporation and is related to the Royal Canadian Mint as a result of common ownership. The loan with EDC was transacted at fair value and made on the same terms as those with third parties. The Bond is with a non-related third party.

7. Income taxes

(in thousands of dollars)

	2003	2002
Income tax expense	$ 281	$ 280
Future tax expense (recovery)	573	(74)
	$ 854	$ 206

Income tax expense on income (loss) from continuing operations differs from the amount that would be computed by applying the Federal statutory income tax rate of 34.52% (2002—36.12%) to income (loss) from continuing operations before income tax. The reasons for the differences are as follows:

	2003	2002
Computed tax expense (recovery)	$ 176	$ (79)
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(34)	(67)
Other net amounts	506	127
Large Corporation Tax	206	225
	$ 854	$ 206

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at 2003 and 2002 are presented below:

	2003	2002
Future tax assets:		
Loss carry-forwards	$ 2,830	$ 3,150
Employee future benefits	2,332	1,960
Inventories	454	–
	5,616	5,110
Less the valuation allowance	(441)	–
	5,175	5,110
Future tax liability		
Capital assets	$ (5,198)	$ (5,203)
Net future tax liability	$ (23)	$ (93)

The Corporation has unused tax losses of approximately $8,700,000 (2002—$9,867,000), which are available to be used to offset future taxable income and which begin to expire in 2008. The Corporation also has investment tax credits of approximately $430,000 (2002—$430,000) which begin to expire in 2009 and are available to reduce future taxes payable, the potential benefit of which has not been recognized in the financial statements.

8. Employee future benefits

i) Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at a rate of 2.14 times the employees' contribution (2002—2.14:1). The Corporation's contribution to the plan during the year was $3,507,000 (2002—$3,890,000).

ii) Other benefits

The Corporation provides severance benefits and workers' compensation benefits to its employees. These benefits are not pre-funded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation. The accrued benefit obligation of these benefits, including the short-term portion is $6,927,000 at the end of the year (2002—$6,102,000) and is fully recorded in the books of account. The current year's expense for these benefits is $2,120,000 (2002—$780,000), which includes an additional expense taken this year as a result of a complete actuarial valuation done as of December 31, 2003. The total benefits paid amount was $1,295,000 (2002—$618,000). The actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations were based on a 6% liability discount rate (2002—6.5%), 6.5% health care rate (2002—4%) and rates of compensation increase of 4% to 4.5% (2002—4% to 4.5%), which reflect current economic indicators, merit and promotional increases.

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada owned entities. The Corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. Transactions with the Department of Finance related to the production and delivery of Canadian circulation coins are generally carried out on a cost plus basis.

10. Derivative financial instruments

The Corporation uses financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in precious metal and foreign exchange prices. Precious metal forward contracts with a notional amount of $6 million were outstanding at the end of the year (2002 - $3.6 million). Foreign exchange forward contracts with a notional amount of $6.2 million were outstanding at the end of the year (2002 - Nil). These contracts were not, nor intended to be, recorded on the balance sheet.

Fair value estimates for derivative contracts are based on quoted forward market prices at December 31, 2003. Since at December 31, 2003, the quoted forward market prices for precious metals are higher than the contract prices, therefore, the fair value of the precious metal contracts is $1.9 million (2002 - $0.2 million). Similarly, at December 31, 2003, the quoted forward market prices for the foreign exchange forward contracts are lower than the contract prices, therefore, the fair value of the foreign exchange contracts is a liability of $0.2 million (2002 - Nil).

The anticipated transactions hedged are expected to occur within the six month period ending June 30, 2004. Any deferred gains or losses will be recognized in the consolidated statement of operations and retained earnings when the anticipated transactions occur. As at December 31, 2003, these unrealized gains and losses are a gain on the precious metal contracts of $1.9 million and a loss of $0.2 million on the foreign exchange contracts.

Notes to consolidated financial statements

December 31, 2003

11. Commitments

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Mint leases, on a required basis, precious metals and pays lease charges based on market value. The metal under these contractual arrangements is not reflected in the Mint's statements. As at December 31, 2003, 3,031 ounces of gold; 654,304 ounces of silver; and 185 ounces of platinum were leased under these contracts (2002—113,119 ounces of gold; 898,787 ounces of silver; and 2,564 ounces of platinum).

12. Restructuring

In response to the economic environment in which the Mint operates, the Corporation's management conducted a review of its operations and implemented a restructuring plan in June 2003 to reduce costs and improve operating efficiencies. The Mint recorded a pre-tax restructuring charge to earnings of $2,434,000. The restructuring charge represented the severance and benefits related to the reduction of approximately 14% of the Corporation's workforce.

The employee separations impacted both facilities across all functions of the Corporation. At the end of the year, there was $369,000 of the total restructuring charge remaining to be paid in 2004.

13. Discontinued operations

On May 20, 2003, the Board of Directors approved management's formal plan to wind down the operation of its PURE .9999 Jewellery Line. As well, management decided to discontinue the Mint's Coin Jewellery Line, which is separate and distinct from the Watch Line. Accordingly, the results of the discontinued operations have been reported separately and the 2002 related operations, as previously reported in prior financial statements, have been reclassified.

On August 28, 2003, the sale of the .9999 jewellery inventory was completed. The Corporation received $1,243,000 in cash proceeds. All coin jewellery referred to above was offered for sale at liquidation prices until year-end. Any balance remaining on hand at year-end was written down to its precious metal value. On January 16, 2004, the remaining coin jewellery inventory was melted with the precious metal content being reclaimed.

The results of the PURE .9999 and Coin Jewellery operations were as follows:

(in thousands of dollars)

	2003	2002
Revenue	$ 1,786	$ 997
Loss before income tax	(3,333)	(7,340)
Income tax recovery	643	2,358
Net loss from discontinued operations	(2,690)	(4,982)

14. Interest in joint venture

The following amounts represent the Corporation's proportionate interest in the consolidated corporation's joint venture:

(in thousands of dollars)	2003	2002
Assets		
Current assets	$ 1,192	$ 865
Long-term assets	248	232
Liabilities		
Current liabilities	787	640
Long-term liabilities	23	23

	2003	2002
Earnings		
Sales	$ 2,527	$ 571
Expenses	2,241	527
Net earnings	195	34
Cash flow		
Operating activities	(174)	73
Investing activities	(41)	(214)
Financing activities	–	401

76% of the joint venture's total sales for the year ended December 31, 2003 were to the Royal Canadian Mint (2002 —98%). The Royal Canadian Mint's consolidated financial statements reflect only those sales and related expenses, which were sold to unrelated third parties.

15. Comparative figures

The previous year's comparative figures have been reclassified to conform to the current year's presentation.