ROYAL
CANADIAN
MINT

ANNUAL
REPORT
2006

External Forces, Internal Strength

Royal Canadian Mint
Monnaie royale canadienne

Metal values skyrocketed.
Retail activity drove unparalleled demand for circulation coinage.
And all this just as the Mint hit its stride on an ambitious business-growth path.

2006 was a year of adaptation, resilience, agile management—and profit.

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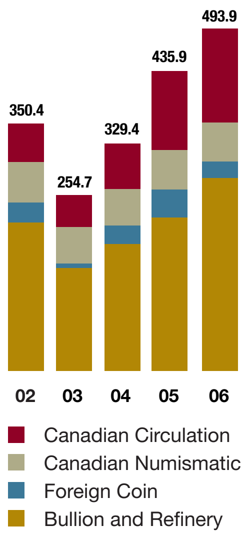
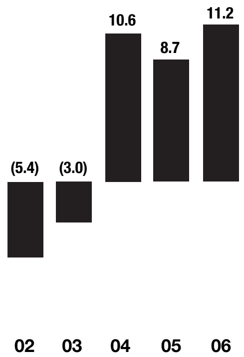
Financial and operating highlights

	2006	2005	% change
Key financial highlights (in millions of dollars)			
Revenue	**493.9**	435.9	13.3
Net income before income tax	**16.0**	13.2	21.2
Net income	**11.2**	8.7	28.7
Total assets	**209.7**	195.9	7.0
Capital expenditures	**19.9**	34.3	(42.0)
Cash flow from operating activities	**36.7**	(10.6)	446.2
Key operating highlights			
Circulation coins produced (in millions of pieces)	**2,237.1**	1,519.5	47.2
Gold bullion sales (in thousands of ounces)	**296.1**	329.3	(10.1)
Number of employees (at December 31)	**773**	732	5.6
Gross profit	**101.7**	93.2	9.1
Value-added sales revenue per employee (in thousands of dollars)	**184.0**	165.0	11.5
Pre-tax return on equity	**14.0%**	12.7%	10.2
Debt to equity ratio	**0.83:1**	0.88:1	(5.7)
Shareholder's equity	**114.4**	104.2	9.9
Total production (millions of pieces)	**2,989.7**	2,587.5	15.5

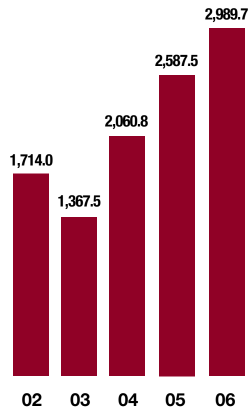
Revenue (segmented)
($ in millions)



Net income (loss)
($ in millions)



Total production
(millions of pieces)



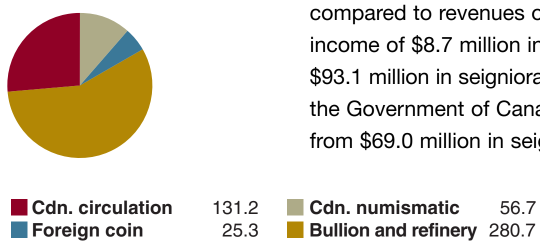
The Mint at a glance

BUSINESS LINE	2006 RESULTS

Royal Canadian Mint

The Royal Canadian Mint is a commercial Crown corporation responsible for the production and distribution of all circulation coinage in Canada. It also produces circulation and numismatic coins and investment grade coins and products for domestic and international customers. As one of the largest refiners of precious metals in the world, it refines, assays and stores gold and silver for Canadian and foreign customers.

Revenue by segment

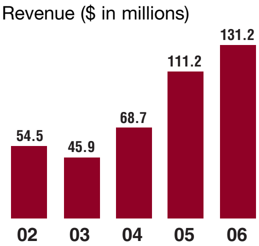


In 2006, the Mint generated revenue of $493.9 million and earned net income of $11.2 million compared to revenues of $435.9 million and net income of $8.7 million in 2005. It also delivered $93.1 million in seigniorage* to its shareholder – the Government of Canada – a 34.8% increase from $69.0 million in seigniorage in 2005.

Canadian circulation

The Mint's responsibilities include providing Canadians with high quality, cost effective coins; managing the inventory and distribution of coins; and celebrating Canadian history, culture and values.

Revenue ($ in millions)

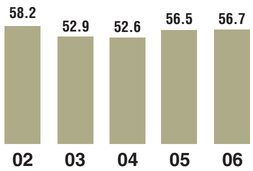


The Mint experienced an extraordinary increase in demand for Canadian circulation coins in 2006. Production increased by 47.2% to 2.2 billion pieces from 1.5 billion pieces in 2005. Revenue increased by 18.0% to $131.2 million from $111.2 million in 2005.

Canadian numismatic

The Mint's numismatic products celebrate Canada's diverse culture, rich history, natural splendor and national achievements. Numismatic products include uncirculated, specimen and proof sets as well as products for sale to gift-givers.

Revenue ($ in millions)

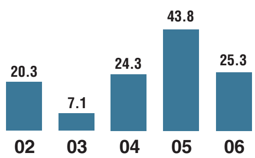


Coin collecting has been declining by about 9% a year for more than a decade. In 2006, this decline in demand was exacerbated by the volatility of precious metal prices. Sales of gift products featuring base metal coins continued to increase. Numismatic revenues remained stable at $56.7 million from $56.5 million in 2005.

Foreign coin

The Mint designs and produces foreign circulation and numismatic coins and ready-to-strike blanks for customers – mostly governments, central banks and treasuries. It also sells or licenses coin production technology, tooling and consulting services, including the management of alloy recovery and recycling programs.

Revenue ($ in millions)

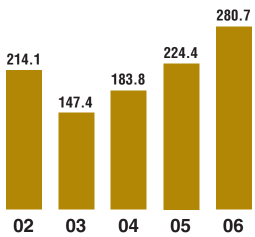


Sharp increases in base metal prices suppressed global demand for alloy coins, but lead to increased interest in plated coins. Also, the increase in demand for Canadian circulation coins limited the Mint's capacity to produce foreign coins. Revenue declined to $25.3 million from $43.8 million in 2005.

Bullion and refinery

The Mint produces and markets a family of gold, silver and palladium Maple Leaf bullion coins as well as high purity precious metal products such as gold and silver granules and wafers. It also operates a refinery that provides customers with an integrated solution to gold and silver processing from refining to assaying and secure storage.

Revenue ($ in millions)



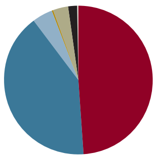
The price of gold and other precious metals remained volatile and continued to rise. In 2006, investors holding bullion captured profits by selling their coins into the secondary market and depressing sales of newly minted gold coins. New packaging and more aggressive marketing caused sales of silver coins to increase significantly. Sales of bullion products increased by 25.1% to $280.7 million from $224.4 million in 2005.

* *Seigniorage is the difference between the face value of a coin and its cost of manufacture and distribution.*

2006 PERFORMANCE

OUTLOOK

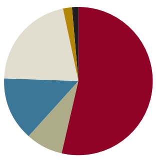
Revenue by region ($ in millions)



Canada	242.2
US	201.4
Asia	22.1
Middle East	0.8
Europe	16.8
Latin America	9.7
Africa	0.9

The Mint operates an international business affected by the health of the Canadian, U.S. and global economies, fluctuations in exchange rates, base and precious metal prices as well as intense competition from other mints around the world. Despite these factors, the Mint expects to grow revenue and income as it aggressively develops and markets its products and services.

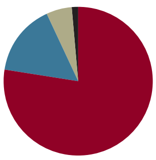
Production (millions of pieces)



1 cent	1,200.0
5 cent	182.3
10 cent	312.1
25 cent	473.0
50 cent	0.1
$1	39.2
$2	30.3

The factors that drive demand for coinage are still evolving, and the eventual impact of e-commerce and changes in methods of micro payment (low value purchases) remains difficult to predict. In 2007, the Mint anticipates strong demand for Canadian coins as the economy continues to grow and it releases commemorative circulation coins.

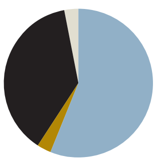
Revenue (% by region)



Canada	77.7
US	15.4
Europe	5.6
Other	1.3

Growth in numismatic and giftable revenues depends upon the Mint's ability to develop products that appeal to collectors and to effectively market those products. In 2007, the Mint will release 80 new gift products and 36 new numismatic coins, including coins with an Olympic theme. The new Enterprise Resource Planning (ERP) system will allow the Mint to reach consumers and business partners more effectively.

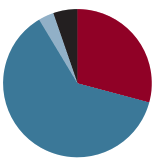
Revenue (% by region)



Asia	56.2
Middle East	3.1
Latin America	37.8
Africa	2.9

Demand for the Mint's low cost multi-ply coinage remains strong. By the end of 2006, the foreign sales team had secured orders for more than 2 billion coins to be produced with both alloy and multi-ply technology. To increase striking capacity and enhance RCM ability to supply foreign governments with coins, the Mint is developing licensing partnerships with foreign suppliers capable of producing blanks and coins to the Mint's standards.

Revenue (% by region)



Canada	29.4
US	62.0
Asia	3.4
Other	5.2

Demand for precious metals is expected to remain strong as global economic and geopolitical circumstances remain unstable. The Mint developed a variety of products and services including the storage of bullion products for consumers on an allocated and unallocated basis. In 2007, the Mint expects to offer storage services on an unallocated basis.

Proving its mettle

Precious and base metals prices surged and demand for circulation coinage spiked, putting the Royal Canadian Mint to the test.

External Forces, Internal Strength –

the story of the year

Metal values skyrocketed. Retail activity drove unparalleled demand for circulation coinage. And all this just as the Mint hit its stride on an ambitious business-growth path.

2006 was a year of adaptation, resilience, agile management—and profit.

Refinery a one-stop shop

The Royal Canadian Mint's new silver refinery was commissioned in 2006. Now customers bringing their gold to Ottawa for refining can have the silver that is output as a byproduct refined at the same time. This also contributes to the Mint's own silver supply.

When the Royal Canadian Mint manage-ment executives sat down to identify the Corporation's targets for 2006, they couldn't have imagined the volatility in precious and base metals values that lay ahead. The economic experts on whose opinions they rely certainly hadn't. When gold prices started to climb—surpassing the $700 USD-per ounce threshold—and nickel prices doubled, the team knew the rising costs of raw materials would challenge the organization's recent track record of impressive profitability.

The markets took their toll—compromising the financial performance of each of the Mint's four business lines. Yet, remarkably, the organization completed the year profitably, achieving 93% of the pre-tax profit target set out in the corporate plan—the second highest net income before income taxes since the Mint started paying income taxes.

"Our costs of doing business were affected dramatically, but some of the strategic decisions taken in the previous three years paid off. We were thrilled to be able to hold our own and close the year with our third consecutive year of double-digit million-dollar profit," says Richard J. Neville, FCA, Vice President Finance and Administration and Chief Financial Officer.

The Mint's proprietary multi-ply plated steel technology (MPPS) was a critical ace in the hole. By using only a nominal amount of costly nickel and copper in the manufacturing process, it allowed the Mint to control its production costs for low-denomination coins and continue to return seigniorage revenue to the Government of Canada. Meanwhile, other national mints were reporting negative seigniorage for low-value coins manufactured with alloy.

The Corporation's Alloy Recovery Program (ARP) helped offset the pressure from metal prices, too. The program draws in truckloads of 'white' coin (25-cent pieces mainly, and 10-cent and five-cent coins) through coin-processing partners in key Canadian cities. The Mint has the coins melted, recovers the valuable nickel content, produces plated-steel replacement coins at a lesser cost and puts them into circulation.

The ARP contributed to the Mint's bottom line in 2006. Its contribution could have been greater had the Mint's Winnipeg plant been able to churn out more plated-steel replacement coin. Therein lies the second chapter in the Story of the Year.

Jennifer Holmes, one of the Royal Canadian Mint's marketing stars, was the creative mind behind the $3 square beaver coin. Jennifer has been responsible for many top-selling offerings over the past few years, carrying forward the Mint's tradition of delighting customers with novel products.

Chapter 2: The Supersized Plating Facility that Could

It's a wonder the Canadian Circulation team slept at all in 2006. Their business line started the year with the already demanding agenda to launch an expanded plating operation at the Winnipeg plant aimed at doubling production capacity. They never anticipated that even as the new, elaborate infrastructure was going live, national demand for circulation coin would be increasing dramatically. But it was.

The development was counterintuitive. With the widespread uptake of e-payment technologies, a decrease in demand had been expected. Yet two market trends were exerting their influence. First, the circulation of coin in the marketplace was diminishing. The volume of daily bank deposits dropped as transit and parking authorities turned to cash-loaded swipe cards and credit card payments, and retailers opted to maintain higher in-store floats to increase cost-effectiveness. Second, retail demand for coin was increasing as that sector experienced a growth rate that outpaced the economy's. With Canadian consumers still using cash for low-value transactions, stores needed high volumes of coin for their tills.

"Less coin was being poured back into circulation daily," says Manon Laplante, Executive Director, Canadian Circulation "meanwhile retail was drawing coin out."

The team responded quickly—buying up alloy material and Cupro Nickel, proceeding with the plating expansion, and pursuing a 'one-cent cell' *Lean Enterprise* initiative that delivered impressive efficiencies of $211,000 in the high-volume production of one-cent coins.

International innovator

The Mint received the Most Innovative Coin award at the international Mint Directors Conference (MDC) for its coloured-coin technology, used in production of the 2004 25-cent Canadian circulation Poppy coin.

To help Canadians turn their change into cash and put these coins back into circulation, the Mint has teamed with Coinstar, Inc. in an effort to recycle Canadian coins. Coinstar centres are convenient, fast and reliably count up to 600 coins per minute.

Technical leadership

The Mint played host to the MDC Technical Committee in September, hosting officials from 15 national mints. The group met first in Ottawa to exchange information and discuss common industry challenges given global market dynamics. The committee then traveled to Winnipeg to observe the Mint's innovative multi-ply plated steel and coloured coin technologies in operation firsthand.

Energy conservation

An extensive retrofit of the heating and chilling systems at the Mint's Ottawa plant continued. The Mint will save $700,000 annually from energy conservation.

A hydrogen generator was also installed in Winnipeg, eliminating the Mint's reliance on U.S. suppliers and the costs associated with transport. Other plant efficiencies introduced last year have reduced hydrogen consumption by 50 percent.

Tops in the country

In October 2006, the Royal Canadian Mint was ranked among Canada's top 100 employers and the country's top 10 family-friendly employers in a study conducted by the publishers of *Maclean's Magazine* and *Today's Parent*. The Mint's generous parental-leave top-ups and its pension contribution program were noted as key differentiators.

Surge in precious and base metal prices

	Projections for 2006 identified in RCM corporate plan (USD)	Actual values at 2006 year end (USD)	Projections for 2007 (USD)
Precious metals (per ounce)			
Gold	$460	$635	$700
Silver	$7.55	$12.90	$14
Platinum	$930	$1,118	$1,330
Base metals (per metric tonne)			
Nickel	$15,000	$34,205	$21,000
Copper	$3,200	$6,290	$8,000
Zinc	$1,250	$4,331	$3,500
Steel	$1,050	$1,000	$1,150

Until recently, 25-cent, 10-cent and five-cent Canadian coins were made primarily of nickel and copper. Today, they contain just 10 percent of those metals—making them far more economical to produce.

2006 coins

Commemorative circulation coins

In 2006, the Royal Canadian Mint introduced four commemorative circulation coins that celebrate Canada's culture, history and values - including its second coloured circulation coin, the 25-cent Breast Cancer coin which featured the commemorative pink ribbon against a white background. The Mint remains the only mint worldwide capable of producing coloured circulation coins.


One-dollar coin "Lucky Loonie"


25-cent coloured Breast Cancer coin


10th Anniversary two-dollar coin


25-cent Medal of Bravery coin

Sellouts

The Mint recorded 12 numismatic coin sellouts last year, many within record timeframes. The Palladium Big and Little Bear Constellation coins sold out in one week, the $3 square sterling silver Beaver coin in two weeks and the Queen's 80th Birthday $300 coin - the first gold coin to feature enameling - in three weeks.


Specimen set - Snowy Owl


Architectural Treasures -
CN Tower $20 coin


The Queen's 80th Birthday
$300 gold coin


10th anniversary of the
two-dollar coin - first day coin


$50 Palladium coin -
Big and Little Bear Constellations


$3 square sterling silver coin -
The Beaver


5 oz. silver coin -
The Four Seasons


Limited edition proof silver dollar
with enamel effect - Medal of Bravery


The Queen's 80th Birthday
25-cent coin


Gold Maple Leaf Bullion Test coin


$350 Pure Gold Coin -
Iris versicolour


Sterling silver Lucky Loonie

Supply and demand

As a booming retail sector drew coin out of the national pool, changing bank-deposit habits limited coin being circulated back in.

"We closely managed our coin inventories as well, moving them across the country carefully in keeping with demand. We never had a single coin shortage. At the same time, we organized to fulfill our international foreign circulation commitments," Laplante says.

They faced their share of technical challenges, too, but engineered solutions persevered.

The team had to produce up to 87 million coins per week in 2006 to keep pace—that, compared with weekly volumes of 30 million in 2003, 43 million in 2004 and 50 million in 2005.

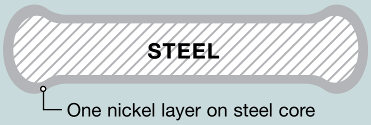
Ongoing communication with plant employees was critical. At one point the full staff worked alongside 70 contractors. "Our team performed exceptionally," Laplante says, "demonstrating as never before their commitment to this organization and its success."

By year-end, the team had produced 2.2 billion Canadian circulation coins – a record high.

A sandwich like no other

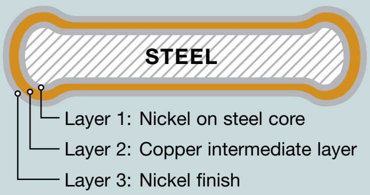
The Mint's patented multi-ply plated-steel technology produces a coin with a *sandwich-like* core of nickel, copper and nickel. The thicknesses of each layer are alterable to yield a unique electromagnetic signature for each country's currency. The benefits? Increased security and easier coin recognition and blank rejection for vending machine operators.

Conventional Nickel Plating
Nickel



Two-Ply Copper Finish Plating
Nickel - Copper

Three-Ply Nickel Finish Plating
Nickel - Copper - Nickel



Forward: Taking Multi-ply Plated Steel Technology to the World

Without question, the greatest shift of 2006 occurred in the Mint's foreign circulation business line. Its Executive Director, Peter J. Ho, began the year sitting atop a goldmine, and was soon forced to hold tight as production capacity was diverted to fulfill exploding demand for Canadian circulation coin.

Working with Chief Operating Officer Beverley Lepine, Ho and his team are responsible for securing contracts to produce circulation coins for foreign governments around the world. They began in '06 with two key circulation contracts in place – one for New Zealand using the RCM's patented Multi-ply Plated Steel (MPPS) technology and the other for Thailand. But metal prices increased, resulting in less worldwide demand for alloy coins. And as demands grew on the Winnipeg facility to output Canadian circulation coin, Ho was asked to sign no further contracts for delivery in 2006.

Though this forced a loss in foreign circulation on the 2006 income statement, the business line did make important strides.

Employees honoured

The 2006 President's Award honoured two employees who have sustained outstanding performance in customer service.

Left to right: Sylvie Laviolette, Account Manager for Canadian circulation in Ottawa and Kamal Singh, Project Technologist for Engineering in Winnipeg.

Co-marketing innovative technology

In 2006, The Royal Canadian Mint signed a licensing agreement with Teer Coatings Limited to market Physical Vapour Deposition (PVD) technology. The Mint was among the first to use PVD in the production of numismatic coin dies (which are used to strike collector coins). The technology extends die life beyond the span that traditional chrome-plating can offer, and improves the quality of finished coins.

New Zealand is delighted with their experience. “The Canadians were able to make the coins to our tight specifications,” says Dr. Don Abel, Assistant Governor and Head of Operations at the Reserve Bank of New Zealand. “With plated steel, we expect ongoing savings in minting our coins of $3 million per annum.”

Further positioning itself, the Royal Canadian Mint signed a critical licensing agreement in 2006 with Jarden Zinc Products Inc., a leading supplier to both the U.S. and Canadian Mints. With that partnership in place, foreign mints now have access to multi-ply plated technology from more than one source. The Corporation also formed the RCM Group and launched a blank-striking production facility in India—in partnership with the India Government Mint—to test global-supply-chain cost efficiencies.

“We are using facilities in emerging markets to win business we wouldn’t otherwise be able to,” says Mint President and CEO Ian E. Bennett. “We need to be close to the opportunities in order to compete with other suppliers and capitalize.”

By the end of December 2006, Peter J. Ho and his team had already booked business worth roughly 90 percent of the 2007 year-end target. Among the deals, one customer had signed for the manufacturing of close to 800 million coins using multi-ply plating technology.

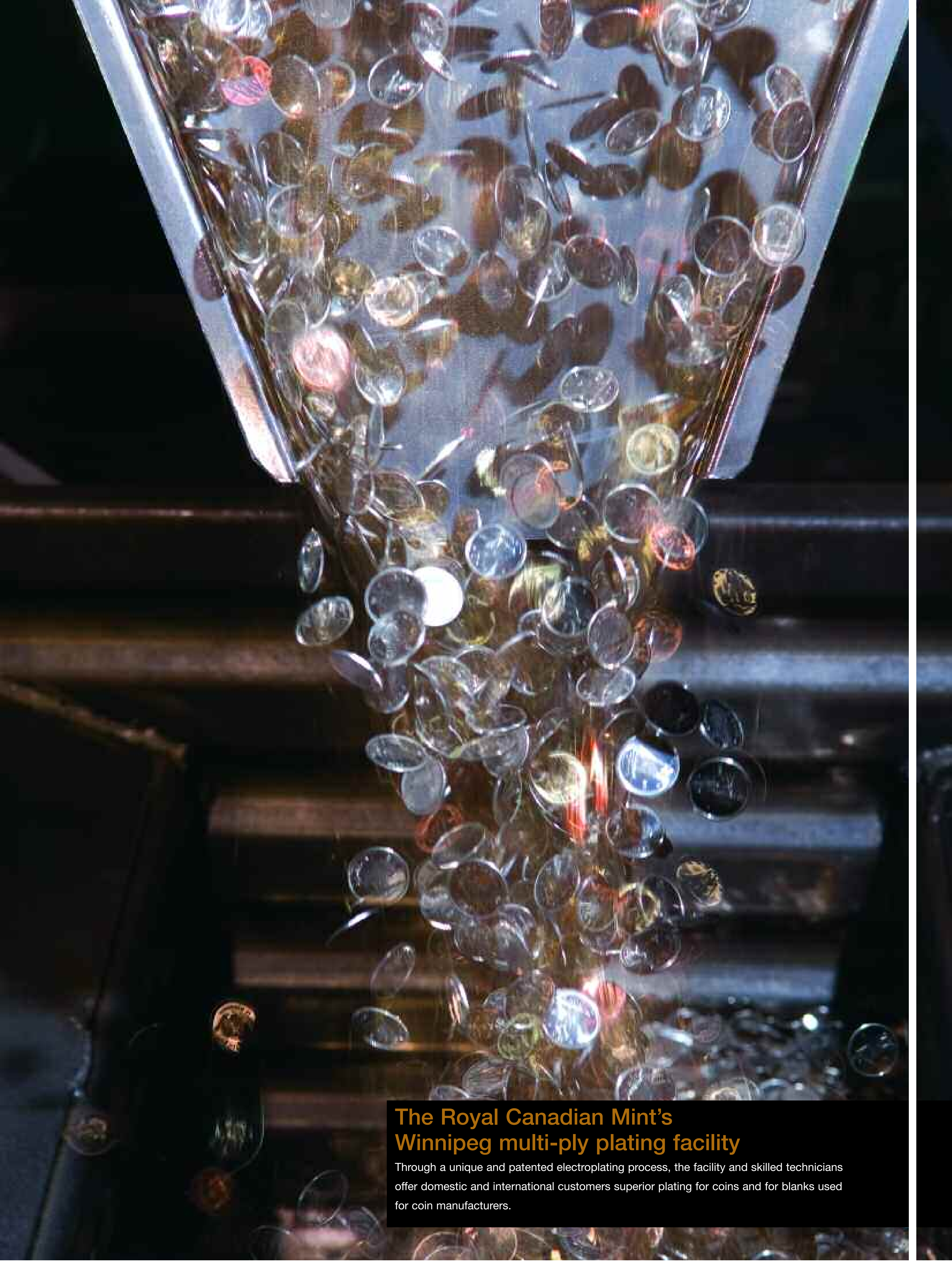
“We’re starting to reap the fruits of innovation,” Ho says. Now we just have to make sure we have enough baskets!”

Countdown to 2010: the Olympic program

In 2006, the Royal Canadian Mint signed a term sheet agreement with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) for production, over three years, of an extensive circulation and numismatic coin program. The Mint will also produce the athlete medals.

Establishing a global supply chain

Through its partnership agreement with the Royal Canadian Mint, Jarden Zinc Products Inc., will manufacture up to one billion coin blanks annually for the Corporation. Jarden’s state-of-the-art production facility is located in Greeneville, Tennessee.



The Royal Canadian Mint's Winnipeg multi-ply plating facility

Through a unique and patented electroplating process, the facility and skilled technicians offer domestic and international customers superior plating for coins and for blanks used for coin manufacturers.

The Year of Living Dexterously

Letter from the President and CEO

No doubt, 2006 will go down in Royal Canadian Mint history books as a year of dexterity. Never before has the resilience and adaptability of the Corporation and its people been so greatly tested. Never before have the organization and its team shone so brightly.

Metals market volatility was a predominant force; it radically disturbed the assumptions on which our 2006 corporate plan targets were based. As the cost of our raw materials rose dramatically, our business lines suffered. At the same time, we faced unprecedented demand for Canadian circulation coin. To fulfill our mandate, we were forced to put the foreign circulation business on hold and free up domestic production capacity at the Winnipeg plant. In the end, we met our commitments and ended the year profitably—achieving our second highest net income before taxes since the Mint started paying income taxes. That success is testimony to the exceptional calibre of our employees in every part of the organization.

The bullion and refinery business experienced some delays in getting its plans for '06 in place. By year-end, however, the silver refinery had been fully commissioned, allowing us to refine gold and silver in one location and serve customers as a one-stop shop. The federal government announced an important amendment to Registered Retirement Savings Plan (RRSP) eligibility rules: investment-grade gold and silver products—such as high-purity gold and silver coins and bullion bars—can now be added to RRSP portfolios. Each of these achievements positions the business line well for 2007 and beyond.

The numismatic business was our biggest challenge. Though a revamped marketing approach boosted giftables sales by 20 percent from 2005, year-end results were disappointing. We have already identified opportunities for improvement; a strategic partnership model for the retail channel is in development and extensive planning is underway to attract new collectors with the exciting Olympic coin program on which we'll be embarking.

We were pleased to sign an agreement with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) for an extensive, three-year circulation and numismatic coin series. We will also be producing the athlete medals. Tooling for the program is already complete, and we're fully organized to make that initiative a tremendous success—for the Mint, visiting tourists, and Canadian sport enthusiasts of all ages.

Our business environment will continue to be volatile, and our ability to adapt will be tested. With this in mind, it is critical that we be proactive with cost control and take advantage of the opportunities that will ensure our ongoing stability and enable us to grow profitably. In the coming year, working with an external consultant, we will review our cost structure and introduce efficiencies. At the same time, we will continue to pursue process refinements through *Lean Enterprise*. We will proceed with transformation of our Enterprise Resource Planning (ERP) infrastructure—the central nervous system of our organization—and continue to capitalize on the revenue stream brought in by the Alloy Recovery Program (ARP). In addition, we will leverage our innovative multi-ply plated steel technology, which is in such high demand by foreign governments around the world.

Finally, I would like to extend a warm thanks to Mrs. Marguerite F. Nadeau, Q.C. who, as Acting President and CEO, steered the organization through the first half of 2006, and to express my deep admiration to all our employees and members of the Board for their tremendous commitment.

Ian E. Bennett
President and CEO

Integrity Wins the Day

A Word from the Chairman

As the pages of this report attest, the events of 2006 put the Royal Canadian Mint through its paces. The integrity of our organization was a key factor in our ability to endure market volatility and the demands of growth. Equally important was a renewed synergy struck between the Board of Directors and the executive management team. In the end, we were proud to post our third consecutive profit and to, once again, return a dividend to our shareholder, the Government of Canada.

Two days of joint meetings between the Board of Directors and executive management early in the year created a firm foundation on which to build. The sessions allowed us to gain a shared understanding of the Mint's strategic direction, the business climate in which we operate, risks to be mitigated, and opportunities to be leveraged. The exercise was a valuable precursor to our development of the Mint's Corporate Plan for 2007 to 2011.

With an excellent governance structure in place, in the coming year we will examine more closely our governance practices and processes to identify opportunities for improvement. In the first quarter, we will complete an individual director review and evaluation with the aim of improving the individual and collective performance of our Board. We are determined to gain maximum benefit from the Board-management partnership.

Our people have a vested interest in making each of our business lines profitable, and we want to inspire them to be part of a winning team. We will do so by refining our awareness of customer needs and expectations, exceeding those expectations and successfully pursuing new opportunities.

In the current environment, the success of each business line will be determined by our ability to remain agile and innovative.

Last year, the Audit Committee worked with management to develop key performance measures to be included with revised financial reports to better inform management and the Board on progress in achieving our plan and budget. Throughout 2007, we will conduct quarterly reviews of operating results against planned targets and of financial results against budgeted figures. Each review will include reports on the management of risks and our progress in pursuing new opportunities.

We were delighted in 2006 to welcome Mr. Ian Bennett as President and CEO of the Mint. In his first year, Ian has already proven to be a visionary and responsive leader.

On behalf of the Board, I thank Mrs. Marguerite F. Nadeau, Q.C. for her dedication, guidance and direction during the management transition. Her efforts enabled us to remain focused and contributed greatly to our positive results in 2006. I also bid a fond farewell to Mr. Tom Taylor, a departing member of the Board who was an active contributor and Chair of the Strategic Planning Committee. I thank Committee Chairs and all Board members for their commitment of time and energy, and welcome two new members, Ms. Susan Dujmovic and Mr. James Barton Love to our Board.

There will be new and ongoing challenges in 2007. I am confident we have the people, the plan and the resolve to make what is already a tremendous organization even better.

Max C. Lewis
Chairman

Corporate Governance

The Royal Canadian Mint recognizes that effective corporate governance contributes to efficient, profitable operations and helps the Corporation sustain its international position of leadership in the minting industry. Since 2002, the Mint's Board of Directors has worked to adopt and maintain public and private governance best practices. As an aid to further enhance its governance practices, the Board uses as primary sources the guiding principles and corporate governance guidelines issued by the Department of Finance and Treasury Board Secretariat of Canada and the recommendations of the Office of the Auditor General for Crown corporations.

The Board of Directors

The Board is comprised of a range of nine to 11 Directors, including the Chairman of the Board and the President and CEO. With the exception of the President and CEO, all Directors are independent of management. The Chairman is an ex-officio member on all Committees as is the President and CEO, with the exception of the Audit and Nominating Committees.

Board Mandate

The Board of Directors is responsible for overseeing the management of the Mint with a view to the best interests of both the Mint and the long-term interests of its sole Shareholder, the Government of Canada. The Board sets the strategic direction of the Mint; reviews and assesses risks and opportunities; monitors the financial management and ensures the integrity of the financial results.

Board Orientation and Continuing Education Program

The Mint has developed a comprehensive orientation and continuing education program to ensure that new Directors clearly understand their roles and responsibilities, the Mint's business and the environment in which it operates so that they are quickly able to contribute to the debates and discussions.

In addition to receiving written briefing materials, Directors are invited to attend a full day's briefing with senior management and tour of the Ottawa and Winnipeg facilities. All Directors sit on at least one Committee of the Board.

Directors are also invited to attend selected national and international trade shows and conferences to assist them in their role.

Board Self-Evaluation

Over the past 10 years, the Board of Directors' self-evaluation has evolved from informal discussions held in-camera to a more formal process where members complete a questionnaire to assess the Board's annual performance on key performance indicators and engage Directors in an open, frank and constructive discussion. A summary of the results of the discussions are shared with the Minister responsible for the Mint.

In addition, the Board is implementing in 2007 an annual assessment of the effectiveness of individual Directors.

Board Integrity

The Board adheres to the federal government's Conflict of Interest and Post-Employment Code for Public Office Holders and the Mint's Code of Conduct. Each year, Directors are required to sign the Mint's Directors' Declaration of Conflict of Interest Statement to confirm their understanding of their obligations and to declare any conflicts of interests, where these apply.

Board Remuneration

The Mint falls under Group 7 of the Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations, which sets the annual retainers and per diems of independent Directors.

The Mint also reimburses the Directors for expenses incurred in attending meetings or in carrying out the business of the Board. The Internal Auditor conducts a review on travel and hospitality expenses of the President and CEO and the Board of Directors and reports the findings to the Audit Committee on a quarterly basis. Commencing in 2007, Board travel and hospitality expenses will be posted on the Mint's website.

Board Meetings

The Board holds its meetings with the Vice-Presidents in attendance to build trust and a sense of partnership between the Board and management. Committee meetings are held, as much as possible, at least two weeks before Board meetings. At each Board meeting, an in-camera discussion is held, initially with the President and CEO in attendance and then with the Board members only. The Chairman de-briefs the President and CEO following the in-camera discussions.

In 2006, the Board met nine times and the key areas of focus included an in-depth review of the business of the Mint and the development of the strategic direction of the Mint; the review of the financial performance of the Mint and of the four business lines on a regular basis; and the development of improved financial reports that include key performance indicators.

Board Committees

Much of the detailed, preparatory work of the Board is conducted through the Board's five Committees: Audit, Corporate Governance, Human Resources, Nominating and Strategic Planning. Committee mandates are reviewed annually and updated as required. Committees report their activities to the Board at each regular Board meeting and make recommendations, where appropriate.

The Audit Committee

The Audit Committee assists the Board in overseeing all material aspects of the Corporation's reporting, control, and audit functions. The Committee's role includes a particular focus on the qualitative aspects of financial reporting to the Shareholder and on the Corporation's processes for the management of business/financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements. The Auditor General of Canada is the external auditor of the Corporation.

All members of the Committee are independent and financially literate. The Internal Auditor reports directly to the Audit Committee. As part of best practices, the Committee holds an in-camera discussion at each meeting, initially with the internal auditor and the external auditors excluding any management of the Corporation, then with only the internal auditor, and finally with only the remaining Committee members.

In 2006, the Committee's key areas of focus included the review and approval of risk management plans; the oversight of expansion of the Alloy Recovery and Recycling Programs; the development of a new financial reporting format and performance metrics for 2007; and the approval of the development of a new ERP system.

The Corporate Governance Committee

The Corporate Governance Committee assists the Board of Directors by providing guidance to and overseeing the Corporation in the area of governance.

In 2006, the Committee's key areas of focus included the improvement of Board and Committee evaluation questionnaires; the review of profiles of the Chairman and Directors; the approval of new policies and update of existing policies; the development of a secure web portal for the Board.

The Human Resources Committee

The Human Resources Committee assists the Board of Directors by overseeing strategies related to human resources.

In 2006, the Committee's key areas of focus included the review of the President and CEO's performance; the review of non-monetary benefits for the position of President and CEO; the approval of new policies and update of existing ones related to the management and well-being of employees; the development of a workforce plan; the development of an emergency succession plan; the development of Absenteeism Management Guidelines.

The Strategic Planning Committee

The Strategic Planning Committee assists the Board of Directors by overseeing the development of the ongoing strategic planning process and initiatives for the Mint.

In 2006, the Committee's key areas of focus included the review of major strategies and initiatives including the Vancouver 2010 Olympic and Paralympic Winter Games Coin Program, a partnership to expand the multi-ply plating facility, the hiring of a firm to implement sustainable improvements in revenue growth, revenue margins and asset utilization.

The Nominating Committee

The Nominating Committee assists the Board of Directors by identifying candidates for the Board.

In 2006, the Committee's key areas of focus included the review of a recruitment process for a new President and CEO and the development of recommendations on the reappointment of Directors to assure continuity on the Board.

Attendance summary

Board Member	Board of Directors (9)	Audit (9)	Corporate Governance (4)	Human Resources (8)	Nominating (4)	Strategic Planning (6)
		BOARD COMMITTEES				
Max C. Lewis Chairman	9/9	9/9	4/4	7/8	4/4	6/6
Ian E. Bennett[1] President and CEO	5/5		2/2	3/3		3/3
Marguerite F. Nadeau[2] Interim President and CEO	4/4		2/2	5/5		3/3
Sheldon F. Brown	8/9			8/8	4/4	6/6
J. Marc Brûlé	9/9	9/9				6/6
Susan Dujmovic[3]	1/1					
Ghislain Harvey	9/9			8/8	4/4	
Richard Kwan	8/9	9/9				
Carol Anne Lee[4]	0/2					
James B. Love[5]	1/1					
Keith E. Meagher	9/9	9/9	4/4			
Louis Proulx	8/9		4/4		4/4	
Darcia G. Schirr	8/9		4/4	8/8		
Thomas V. Taylor[6]	7/8	7/8				6/6

1. *Appointed on June 12, 2006. Not a member of the Audit and Nominating Committees.*
2. *Interim position until June 11, 2006. Not a member of the Audit and Nominating Committees*
3. *Appointed on September 15, 2006*
4. *Resigned effective April 21, 2006*
5. *Appointed on October 30, 2006*
6. *Term ended on October 29, 2006*

Performance against objectives

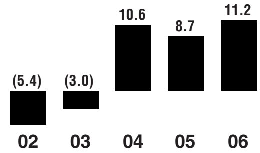
BUSINESS LINE	2006 PERFORMANCE GOAL
 **Royal Canadian Mint** "The Mint is Canadian to the core, a world-class brand that exceeds the expectations of Canadians and our customers with innovative products and services." *Ian E. Bennett* *President and CEO*	1. Grow profitable sales 2. Generate a continuous flow of seigniorage to the Government of Canada 3. Continue to reduce costs while improving efficiency in every aspect of the operations. 4. Provide every employee with the opportunity to participate in the Mint's success. 5. Ensure that health, safety and the environment are paramount considerations.
 **Canadian circulation** "Building on the success of our multi-year program, we established momentum and anticipation for our new coin program which celebrates the Vancouver 2010 Olympic and Paralympic Winter Games." *Manon Laplante* *Executive Director*	1. Ensure Canadian circulation coins and services are cost effective, in adequate supply and inspire Canadians to celebrate their history, culture and values. 2. Increase demand for coins and in turn, seigniorage, by issuing special commemorative circulation coins. 3. Continually improve operations and operating margins.
 **Canadian numismatic** "Collector coins celebrate Canada's history, culture and values with designs that are uniquely Canadian in concept and production." *Paul Lefebvre* *Executive Director*	1. Design and produce coins that will appeal to collectors today and rise in value over time. 2. Strengthen the collecting and investment value of the Mint's products through continued improvements in technology, design and manufacturing. 3. Develop consumer gifts that celebrate special occasions in the lives of Canadians.
 **Foreign coin** "A new partnership with the Indian Government Mint, will allow us to expand capacity to meet the demand for the Mint's quality coinage." *Peter J. Ho* *Executive Director*	1. Expand capacity by licensing the Mint's multi-ply plating technology to international mints and producers of blanks. 2. Build the Mint's global sales coverage through marketing relationships with international companies.
 **Bullion and refinery** "The Mint has operated a gold refinery since 1911 and the addition of a silver refinery in 2006 creates a new source of revenue while enhancing our competitiveness." *David Madge* *Executive Director*	1. Provide investors with efficient, low cost and liquid means to invest and trade in gold. 2. Develop a more aggressive sales and marketing strategy for silver bullion and coins. 3. Expand refining services with the commissioning of a new silver refinery.

2006 PERFORMANCE

- Net income increased 28.7% to $11.2 million from $8.7 million in 2005.
- Pre-tax return on equity increased to 14.0% from 12.7% in 2005. Gross profit as a percentage of revenue remained steady at 20.6% from 21% in 2005.
- Initiated the implementation of an ERP system.
- Awarded one of Canada's Top 100 Employers of the Year by *MacLean's* magazine.

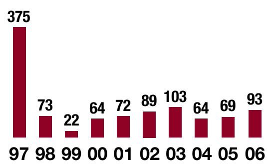
2006 KEY PERFORMANCE MEASURE

Net Income ($ in millions)



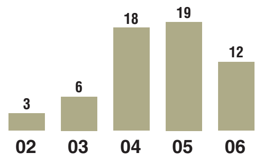
- Completed the expansions of the plating facility in Winnipeg.
- Increased production by 47.2% to 2,237.1 million pieces from 1,519.5 million pieces in 2005.
- Seigniorage increased by 34.8% to $93.1 million from $69.0 million in 2005.
- Expanded the coin recycling and alloy recovery programs.
- Improved inventory tracking and control through the introduction of nation-wide re-usable packaging.
- Issued four commemorative circulation coins.

Seigniorage ($ in millions)
per Government of Canada year end



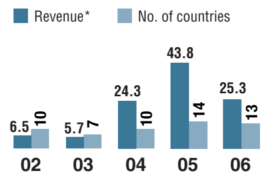
- Issued 41 new numismatic products and 18 new gift products.
- Sold out 12 of 41 new coins issued.
- Focused sales efforts on retail partners with a smaller footprint and on direct marketing, particularly on the web site.
- Continued to employ new technologies and combine existing technologies to create unique coins.
- Developed new technologies including vapour deposition and motion holograms for introduction on new coins in 2007.

Numismatic sell outs



- Produced 747.6 million coins and blanks for 13 countries compared to 1.06 billion coins and blanks for 14 countries in 2005.
- Formed the Royal Canadian Mint Group to fulfill the Mint's contract to produce coins for Thailand and expand capacity.
- Fulfilled a contract to replace New Zealand's low denomination circulation coins. In 2006, New Zealand withdrew its alloy circulation coinage and issued 295 million multi-ply coins produced by the Mint.
- Licensed the Mint's multi-ply plating technology to Jarden Zinc Products, Inc. in Tennessee.

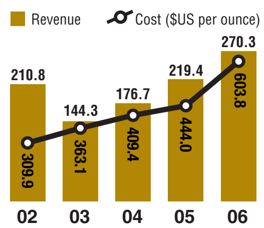
Revenue* / Number of countries served ($ in millions)



* excluding numismatic

- Increased refining capacity and volumes with the completion of a new silver refinery.
- Increased volume of precious metal refined by 52% to 5.0 million ounces from 3.3 million ounces in 2005.
- Improved the packaging and marketing of silver coins, driving sales up 153% and capturing 20% of the global market for silver coins.
- Developed a variety of products and services including the storage of bullion products for consumers on an allocated and unallocated basis.

Bullion revenue / Cost of gold ($ in millions)



Directors and Officers

Board of Directors

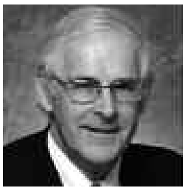
Max C. Lewis
Retired
Fredericton,
New Brunswick
Chairman,
Board of Directors

Ghislain Harvey
Executive Vice President
and General Manager
of Promotion
Saguenay Inc.
Saguenay, Québec
Chair, Human Resources
Committee

James B. Love, Q. C.
Partner
Love & Whalen
Toronto, Ontario

Richard Kwan, CA
Director of Administration
Children's Aid Society
of Toronto
Toronto, Ontario

Sheldon F. Brown
President
S.F. Holding Ltd.
Sydney, Nova Scotia



Keith E. Meagher
Retired
St. Albert, Alberta

J. Marc Brûlé, CA
Chief Executive Officer
Energy Ottawa Inc.
Ottawa, Ontario
Chair, Audit Committee

Louis Proulx
Chairman of the Board
GPL Proulx Assurances inc.
Laval, Québec
Chair, Corporate
Governance Committee,
Nominating Committee

Susan Dujmovic
Assistant Vice-President
of Commercial Financial
Services
HSBC Bank Canada
Vancouver,
British Columbia

Darcia G. Schirr
Partner
Robertson Stromberg
Perdersen LLP
Regina, Saskatchewan

Senior Executive Officers

Ian E. Bennett
President &
Chief Executive Officer

Marguerite F. Nadeau, Q.C.
Vice-President of
Corporate and Legal
Affairs, General Counsel
and Corporate Secretary

John Moore
Acting Vice-President,
Marketing and Sales

Richard J. Neville, FCA
Vice-President of
Finance and
Administration and
Chief Financial Officer

Pam Aung Thin
Vice-President
Communications

Craig Szelestowski
Vice-President, Human
Ressources and *Lean*
Enterprise

Beverley A. Lepine, CA
Chief Operating Officer

Business Line Leaders

Manon Laplante
Executive Director
Canadian Circulation

Paul Lefebvre
Executive Director
Numismatics

Peter J. Ho
Executive Director
Foreign Circulation

David Madge
Executive Director
Bullion and Refinery

Management's discussion and analysis

Corporate overview

As Canada's national mint, the Royal Canadian Mint produces all circulation coins and manages the coinage distribution system for Canada. The Mint operates along four business lines. The activities of these businesses include:

- The design, manufacture and distribution of circulation coins to meet the needs of the Canadian marketplace.
- The design, manufacture and distribution of Canadian numismatic coins and giftable products for sale to collectors and gift-givers.
- The manufacture of circulation and numismatic coins and blanks for countries around the world.
- The production of bullion coins and wafers for the investment community. The Mint also provides refinery and storage services to Canadian and international customers.

Vision: Canadian to the core, the Royal Canadian Mint is a world-class brand that exceeds expectations with outstanding products and services.

Mission: The Royal Canadian Mint is a world-class provider of branded investment, collectible and secure payment products and services that connect people and inspire celebration.

Values: The Royal Canadian Mint is committed to and will attain its vision through the development of the following cultural values: customer focus, excellence, innovation, being Canadian, integrity and people.

The strategic objectives of the Mint are to:

- Maintain the Mint as a world-class brand that is recognized for quality, innovation and meeting or exceeding customers' expectations.
- Ensure that Canadian circulation products and services are cost-effective, accessible, relevant and inspire Canadians to celebrate their history, culture and values.
- Ensure that foreign coinage, bullion and refinery services, collectible, giftables and other related products and services lead in their respective markets and are profitable.
- Generate a profit and maintain the long-term viability of the Corporation through an on-going commitment to customer satisfaction, growth and efficiency.
- Create an environment where all employees demonstrate the Corporation's values and celebrate their success.
- Ensure that health, safety and the environment are paramount considerations in providing the ideal workplace.

Strategic and performance indicators

The objectives of the Mint's five-year plan covering 2007 to 2011 establish ambitious goals that will lead to profitable growth and a continuous flow of seigniorage to its shareholder – the Government of Canada.

To achieve its financial goals, the Mint strives to continually improve profitability through prudent financial management, aggressive marketing and constantly improving quality of its products and efficiency of its operations. The Mint measures performance by using metrics meaningful to its shareholder, customers, business partners and employees. The measures below allow the Mint to monitor its capacity to improve and create value.

Performance measures	2005	2006	2007 target
Pre-tax return on equity	12.7%	14.0%	20%
Gross profit as a % of revenue	21%	20.6%	25%
Return of seigniorage	$69.0 million	$93.1 million	$77.0 million
Value added sales revenue per employee ($000s)	$165	$184	$212
Investment in training (as a % of payroll)	3%	2.25%	4%

The Mint continues to focus on improved efficiency and profitability by practicing the principles of *Lean Enterprise*. In 2006, the Mint achieved operating savings of approximately $837,000 in Ottawa and $291,000 in Winnipeg through 41 *lean* initiatives. These employee-led initiatives included:

- Implementation of the one-cent cell in Winnipeg, which provided efficiency gains of $211,000.
- The establishment of supermarkets and *kanbans* for die production. This reduced raw material inventory from $130,000 to $4,000, cut lead-time for hobbed dies by 50%, reduced block inventory by 40%, and provided substantial efficiency gains.
- Four kaizen* in assay improved the turnaround time on their service and reduced both labour and materials costs.
- Implementation of a new ERP system. Phase I of the new system will be implemented by April 30, 2007. Phase II will expand the system to the refinery, enhance customer relationship management and refine e-business systems by the end of 2008.
- Investing 4% of payroll to training to ensure the requisite skills are in place to achieve growth in a safe environment.

The Ottawa plant achieved ISO 9001:2000 re-certification in June, 2006. The Winnipeg plant achieved ISO re-certification in August, 2005, and will receive periodic audits twice per year until the next re-certification, scheduled for August, 2008. Two external assessments by BSI Management Systems Inc. to assess compliance to ISO 9001:2000 as well as Mint procedures were successfully completed during 2006.

Corporate results
Consolidated results and financial performance

($ in millions)

	2006	2005	% change	2004
Revenue	493.9	435.9	13.3%	329.4
Net income before tax	16.0	13.2	21.2%	15.3
Net income	11.2	8.7	28.7%	10.6
Total assets	209.7	195.9	7.0%	168.1
Shareholder's equity	114.4	104.2	9.9%	96.6
Inventories	40.3	33.0	22.1%	18.0

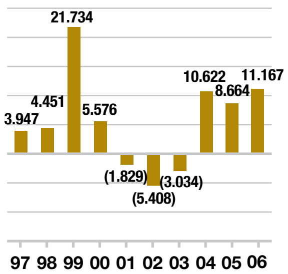
Consolidated financial performance

The Mint's net income for the year was $11.2 million compared to $8.7 million in 2005. The key factors behind the year's results include:

- Revenue increased by 13.3% to $493.9 million from $435.9 million in 2005. Revenue increased in Canadian circulation (18.0%), Canadian numismatics (0.4%) and bullion and refinery (25.1%) but declined in foreign circulation (42.2%).

* *An evaluation for continuous incremental improvement in process practices and efficiency.*

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



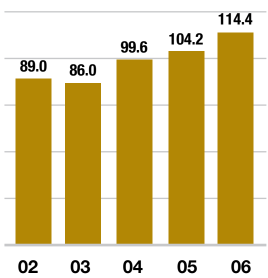
- Operating costs, including cost of goods sold, increased by 13.0% to $476.8 million from $422.1 million in 2005. Cost of goods sold, which represents 82.3% of total operating costs, increased by 14.4% to $392.2 million from $342.7 million in 2005. This increase reflects the substantial increases in the volume of Canadian circulation coins produced compounded by increases in the price of both base and precious metals.
- Administrative costs increased by 20.1% to $32.3 million from $26.9 million in 2005, with administrative costs as a percentage of revenue increasing to 7% from 6%.
- Net income before income tax increased by 21.2% to $16.0 million from $13.2 million in 2005. Gross profit margin decreased to 20.6% from 21% in 2005. The increase in the Mint's net income continued efforts to restrain costs and improve productivity.
- Interest income decreased to $160,000 from $393,000 in 2005. Interest expense was $1.5 million compared to $1.1 million in 2005. Interest expense relates primarily to the debt for the plating facility.

Explanation of corporate results

The major factors behind the year's results include:

- The extraordinary and unexpected increase in demand for Canadian circulation coins. Production increased by 47.2% to 2,237.1 million pieces and revenue to $131.2 million from 1,519.5 million pieces and revenue of $111.2 million in 2005. Although the Mint anticipated an increase in demand, the magnitude of the increase placed pressure on margins and resources.
- Rising metal costs and continued geopolitical and economic uncertainty caused sales of bullion silver and palladium investment products to increase to 2,840,794 ounces from 1,311,723 ounces in 2005. Revenues increased by 25.1% to $280.7 million from $224.4 million in 2005.
- Unprecedented increases in base metal prices suppressed demand for alloy coins but drove interest in plated coins. The rise in demand for Canadian circulation coins decreased the Mint's capacity to produce foreign coins. Production of foreign blanks and coins decreased by 29.6% to 747.6 million pieces from 1.06 billion pieces in 2005. Revenue declined to $25.3 million from $43.8 million in 2005.
- The commissioning of the new silver refinery to support the Mint's gold refining business increased the total volume of precious metal refined by 52% to 5.0 million ounces from 3.3 million ounces in 2005. Revenue increased to $9.9 million from $4.4 million in 2005.

Shareholder's equity
($ in millions)



The year 2006 is significant for the continued development of partnerships in every business line. The marketing partnership with Jarden Zinc, Inc. that was formed in 2005 was expanded in 2006 to a licensing agreement and the establishment of a plating facility in Tennessee with the capacity to produce one billion blanks a year for the Mint. This licensing agreement with Jarden will allow the Mint to develop its marketing relationship with Giesecke & Devrient GmbH (G&D). This relationship was established in 2005, but demand for Canadian coinage made it impossible to accept any new contracts that G&D might have secured in 2006. G&D dominates the world in high-volume banknote processing and banknote production. It is anticipated G&D will extend the Mint's global reach and the relationship has been renewed for 2007.

The Mint established the RCM Group with the formation of a partnership with the India Government Mint to produce alloy coins for shipment to foreign customers. A relationship has also been established with the Tower Mint in England to produce tooling and foreign numismatic products. Where foreign mints are used, the Mint ensures its ISO and quality standards are maintained. The partnerships with Jarden, India and England expand the Mint's capacity to produce Canadian and foreign coins without requiring capital investment or compromising quality.

A partnership was also formed with Coinage Distribution Inc. to process coins in three cities – Toronto, Montreal and Calgary – and the partnership with Coinstar was expanded to recycle coins in Ottawa. Montreal is expected to follow in 2007.

A term sheet was signed with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games naming the Mint as Official Supporter. The Mint will produce circulation and numismatic coins and will produce the athletes' medals for the 2010 Winter Games. It is expected that the agreement will generate sales of $100 million over a three-year period.

Canadian circulation

Canadian circulation coinage is the core business of the Mint. By minting sufficient coinage and managing its distribution, the Mint ensures efficient trade and commerce across Canada. This is done through the 12 regional coin pool sites and the National Coin Committee (NCC). The NCC, chaired by the Mint, is comprised of Canadian financial institutions and armoured car companies. Through the use of innovative technologies and unique designs, the coins produced by the Mint also promote pride in Canada's history, people and values.

By managing the inventories and distribution of coins and producing coins that encourage Canadians to collect while constantly improving productivity, the Mint endeavours to increase seigniorage for the Government of Canada.

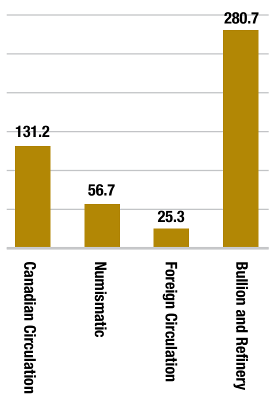
Summary of results: Revenue from Canadian circulation coins increased by 18% to $131.2 million from $111.2 in 2005. The volume of coins minted increased 47.2% to 2,237.1 million pieces from 1,519.5 million pieces in 2005, with the strongest growth coming from one-cent coins. The increased volume combined with the mix of coins produced resulted in a 34.8% increase in seigniorage to $93.1 million from $69.0 million in 2005.

Explanation of results: Demand for coinage is influenced by a wide variety of factors from consumer spending habits to complex demographic distributions. While these factors continued to play a role in 2006, the dramatic and unexpected increase in demand for new coinage was driven primarily by the impact of changes in payment methods for small transactions, particularly parking and public transit. Emerging payment technologies, including e-payment, have reduced the volume of coinage that consumers are returning to circulation. At the same time, growth in the retail industry, hand-in-hand with continued strength in the Canadian economy, has increased the demand for coins for transactions at stores. The Mint has been aware of these trends for several years, but the magnitude of the impact in 2006 was more significant than anticipated.

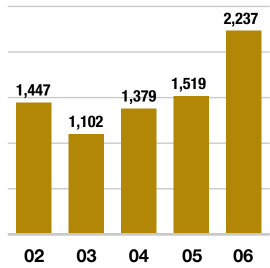
Production increased from weekly highs of 50 million up to 87 million pieces a week in 2006, and employment at the minting facility in Winnipeg increased by 24 employees. To manage the pressure on production and the distribution system, the Mint implemented several measures:

- Despite the increase in cost, 40 million 5-cent coins were produced using traditional alloy composition rather than plated technology,
- Inventories held by the armoured car companies were reduced without creating shortages in any region.
- The patented multi-ply plating technology was licensed to Jarden Zinc Products, Inc. in Tennessee. Under this license, Jarden has sufficient plating capacity to produce one billion coins a year.

Gross operating revenue by business segment
($ in millions)



Canadian circulation coin production
(millions of pieces)

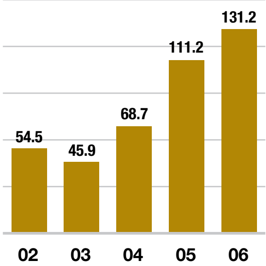


- The coin recycling program was expanded from 120 self-service kiosks in Toronto to 150 kiosks in Toronto and Ottawa.
- The Mint also expanded its coin processing service to Vancouver to process coins for the telecommunications, parking and public transit industries. As a result of these expansions in the Mint's coin recycling and processing programs, 406 million coins were returned to the coin pool compared to 150 million coins in 2005. These programs generate income and relieve the pressure on inventories.

In order to expand its ability to meet growing demand and reduce costs, the Mint also:

- Allocated resources to research the various payment alternatives available around the world. Jointly with the Department of Finance and the Bank of Canada, the Mint will review Canada's denomination structure to ensure that the mix of denominations meets the changing trade and commerce needs of Canadians.
- Completed the expansion of the plating facility in Winnipeg, increasing capacity from 3,000 metric tonnes to 7,000 metric tonnes. This expansion along with implementation of a cellular manufacturing strategy will allow the Mint to produce more coins while using fewer resources.
- Replaced the existing two-step process for producing the two-dollar coin with a simpler, one-step process.
- Expanded the Alloy Recovery Program (ARP). Since 2001, Canadian circulation 5, 10, 25 and 50 cent coins have been composed primarily of steel plated material, which significantly reduced the manufacturing cost. The ARP removes the solid nickel and alloy coins produced prior to the introduction of plated coins and recovers the base metals. In 2006, the ARP achieved revenues of $19.4 million compared to $11.2 million in 2005. The program also reduces the number of different coin acceptance signatures within the marketplace, which benefits the vending and other industries.
- Continued to expand the recycling program. Not only does this program help to satisfy the increased demand for coins through recycling, the Mint recovers the metal in any alloy coins collected by sending them to the alloy recovery program. In 2006, the recycling program achieved revenue of $1.0 million and savings of $1.3 million by eliminating the need to produce new coins. In 2006, the program was expanded with the placement of more kiosks in Southern Ontario and 15 locations in Ottawa.
- Expanded its coin processing services to more businesses that collect coins through their day-to-day operations. The businesses, such as laundromats and parking lots, benefit from the competitive roll-and-wrap services offered by the Mint while the Mint ensures that coin inventories are promptly processed and returned to the distribution system, thus increasing coin efficiency. This also provides the Mint with critical information on trends in coin usage and trends in payment technologies.
- Implemented nation-wide re-usable packaging that improves tracking and control over inventories and shipping while reducing costs.

Canadian circulation coin revenue ($ in millions)



The Mint's revenue is also driven by the ability to produce coins that capture the imagination of Canadians. During 2006, the Mint issued four special circulation coins in the third year of a multi-year program celebrating Canadian heroes, historical places and events:

- The one-dollar Lucky Loonie circulation coin. The Mint first produced this popular coin in 2004. During the 2002 Olympic Winter Games, it was discovered that a Loonie had been secretly buried at centre ice, covertly urging Canada's men's and women's Olympic hockey teams on to gold medal performances.

- The 25-cent "Creating a Future without Breast Cancer" coloured circulation coin. The Mint's second coloured coin honoured the courage and determination of those affected by breast cancer. Through a competitive selection process, the Mint selected Shoppers Drug Mart/Pharma Prix and its over 980 outlets to distribute the coins across Canada. This partnership increased demand, accessibility and awareness for the Mint's coin programs while driving business to the retail partner.
- The 10th anniversary of the two-dollar coin. The innovative technology used to produce the bi-metallic coin allows it to last about 20 times longer than the note it replaced. This year's anniversary issue features an update of the original design by accomplished artist Tony Bianco.
- The Medal of Bravery 25-cent circulation coin. The Medal of Bravery was established in 1972 as part of the Canadian Honours System. It is awarded by the Governor General of Canada to recognize "acts of bravery in hazardous circumstances."

Building on the success of its multi-year program, the Mint has established momentum and anticipation for the next coin program commemorating the Vancouver 2010 Olympic and Paralympic Winter Games. This program will launch in 2007 and continue through to the Winter Games in 2010. A special series of 17 circulation and 36 numismatic coins and products have been designed to celebrate the commitment and dedication of athletes along with the values that are marked by the Winter Games. A series of giftable products will also be offered.

Outlook: The Mint's corporate plan for 2007 anticipates production requirements will exceed existing capacity for coining. To expand capacity, the Mint will purchase two high-speed presses.

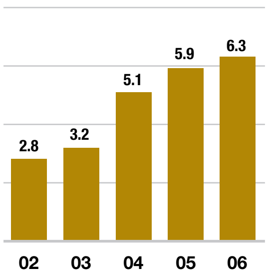
The factors that drive demand for coinage are still evolving, and the eventual impact of these changes, such as e-commerce and shifts in methods of micro payment (low value purchases), remains difficult to predict. Between 2007 and 2011, Canadian banks are expected to introduce cards with store-of-value chips suitable for the marketplace. It is anticipated that it will require some time for the retail industry to adapt and the Mint expects demand for circulation coinage to remain high until 2012.

Numismatic coins

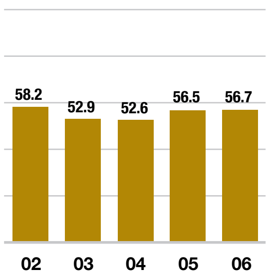
Collector coins aim to celebrate Canada's history, culture and values with designs that are uniquely Canadian in both concept and production. The coins are made primarily with precious metals embellished with special effects created with technologies such as holograms, enameling, painting and lasering. Mintages are set to establish rarity, which provides the collector with a sense of value and provide support to the secondary market.

Within this business line, the Mint also produces consumer gifts, medals, medallions and tokens. The core of the consumer gift line is circulation coins packaged to celebrate Canada Day and life's special occasions such as weddings, birthdays and the birth of a child. The market for medals and medallions are as different as the skills and capabilities required for their production. Medals require the finest craftsmanship and quality, such as the Governor General's Performing Arts Awards medal. The orders are small and highly customized. Medallions and tokens are mass produced in large quantities for broad circulation.

Web sales revenue
($ in millions)



Canadian numismatic revenues ($ in millions)



Numismatic coins are sold through direct marketing, including the Mint's website and catalogue, as well as a network of dealers, distributors and Canada Post retail outlets. Consumer gifts are sold through direct marketing and retail partners.

Summary of results: Numismatic revenues remained stable at $56.7 million from $56.5 million in 2005. The sale of core and new numismatic products declined. Twelve of 41 new coins minted in 2006 sold out by the end of the year compared to 19 of 42 new coins in 2005. Sales of giftable products increased 5% to $6.3 million from $6.0 million in 2005. The strongest channel in 2006 was direct marketing, particularly web sales, which increased 7% to $6.3 million from $5.9 million in 2005.

Explanation of results: Although coin collecting holds the second largest share of the collectibles market, this is a market that has been declining over the past decade by roughly 9% a year. The performance of numismatics in 2006 reflects this trend in the market exacerbated by the volatility of precious metal prices, which made a substantial increase in prices necessary. The strength of the Canadian dollar continued to make the Mint's numismatic products more expensive to foreign buyers. At the same time, Canada Post, dealers and distributors altered their sales and inventory management practices, which reduced the Mint's business through these channels.

In contrast to the collectibles market, the giftables market is estimated to be in excess of $18 billion and growing. In 2003, the Mint began to offer coin gift products. These products celebrate special moments, such as the birth of a child or a wedding. In 2006, the Mint issued coin gifts depicting Canadian NHL Hockey team logos. The coins in these gift items are made of base metal and are more affordable than precious metal numismatic coins. Although this is a highly competitive and fragmented market, the Mint has achieved significant growth.

With 18 new giftable products and 41 new numismatic products in 2006, the business line continues to offer unique new products, including:

- A $300 gold coin celebrating Queen Elizabeth's 80th birthday. The image on this coin was created with enamel, which creates an image of unusual depth and colour that is very intense and realistic. The Mint also produced a Medal of Bravery proof dollar with enamel in 2006.
- A $5 silver Snowbirds coin and stamp set. The 99.99% pure silver coin echoes the designs of two Snowbirds stamps. The images are superimposed on the coin using an innovative photographic holography technique, creating a double hologram. Tilting the coin reveals either the pilot or the aircraft in formation.
- A $20 silver coin marking the 30th anniversary of the CN tower. The coin features a three-dimensional image of the tower using photography hologram technology. This coin is the second issue in the architectural treasures series.
- The 50-cent sterling silver coin with a brilliant hologram image of a Silvery Blue butterfly, the sixth coin in the popular butterfly series.
- Four $50 palladium coins with four versions of the Big Bear and Little Bear constellations – one for each season.
- Canada's first square legal tender coin, a $3 sterling silver coin with the image of a beaver.
- A $300 14 KT gold coin with authentic Swarovski Crystals embedded in the coin.

To improve results in numismatics in 2007, the Mint will:

- Continue to employ new technologies and combine existing technologies – such as colour and motion holograms – to create unique coins. In 2007, one new technology to be used is vapour deposition. This is a technique for applying a very thin layer of brilliant colour on a coin.
- Launch the Vancouver 2010 Olympic and Paralympic Winter Games program in early 2007 with the issue of the first in a series of coins. The Canadian coin program is the most extensive program related to the Olympic Games ever conceived by any mint worldwide.
- Ensure product scarcity by limiting mintages on select products, maintaining the product destruction policy, reducing the number of products from 43 to 36 and leveraging the Vancouver 2010 Olympic and Paralympic Winter Games' coin program.
- Increase the number of giftable products from 30 in 2006 to 80 in 2007 introducing both coin and non-coin products.
- Shift the retail focus from mass merchandise partners to retail partners with a smaller store footprint.
- Improve customer relations by continuing to monitor and respond to customer feedback and expanding support to dealers and distributors.
- Reduce overhead costs and improve production efficiency.

The Mint's corporate capabilities for craftsmanship of the finest quality place it in a strong position in the medal market. Within the medallion and token market, the Mint continues to target select industries, manufacturers, incentive houses, entertainment venues and sports associations to secure sales.

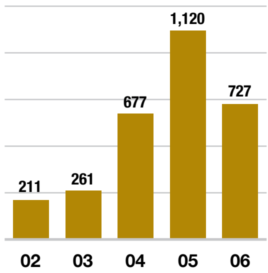
The Mint will also continue to reduce costs and improve efficiencies through *lean* and other initiatives to maximize efficiencies and productivity within manufacturing, new product development and sales and marketing. In 2006, the Mint purchased its first automatic numismatic press capable of producing high quality proof coins. This press will provide additional capacity and free other presses to meet the complex hologram requirements.

Within the giftable line of products, the Mint produced gift sets celebrating Canada's six hockey teams, a baby's lullaby CD and silver coin set, a keepsake tin and keepsake dollar, a baby keepsake bank and a holiday carols and sterling silver dollar set.

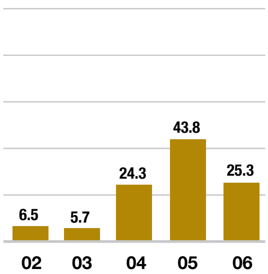
Outlook: Growth in numismatic and giftable revenues continues to depend upon the Mint's ability to develop products that appeal to collectors and to effectively market those products. In addition to the release of new coins within the established multi-year programs, the Mint will begin to release the dozens of coins that will be minted in the three years leading up to the Vancouver 2010 Olympic and Paralympic Winter Games. The new ERP system will also enable the Mint to reach and serve both end consumers and business partners more effectively by providing faster and more flexible order processing, capable of meeting subscription and other pay-in-advance programs.

Within the collectibles market, the Mint's sales are expected to grow as it develops new products with relevant emotional themes that offer compelling value to consumers and retailers.

Foreign circulation coins sold
(millions of pieces)



Foreign circulation revenue* ($ in millions)
** excluding numismatic*



Foreign coin

The Mint designs and produces circulation and numismatic coins and ready-to-strike blanks for customers – mostly governments, central banks and treasuries – around the world. It also sells or licenses coin production technology, tooling, and consulting services, including the management of alloy recovery and recycling programs.

Summary of results: The Mint produced 747.6 million coins and blanks for 13 countries compared to 1.06 billion pieces for 14 countries in 2005. Revenues declined 42.2% to $25.3 million from $43.8 million in 2005, reflecting the increased demand for Canadian circulation coins which limited the Mint's capacity to produce foreign coins.

Explanation of results: Sales in 2006 were affected by the extraordinary increases in base metal prices. Nickel prices climbed 153.4% while the price of copper jumped 43.1%. Copper, nickel and zinc are the primary metals used in alloy coinage and the cost of coins in many countries rose beyond the face value of the coins. Several governments postponed placing orders despite the impact of insufficient coinage on their national economies. This suppressed the number of orders secured by the Mint for foreign alloy coins while the increased demand for Canadian circulation coins inhibited its ability to market plated products.

Other major drivers behind performance in 2006 include:

- Fulfillment of a contract to replace New Zealand's low denomination circulation coins. In 2006 New Zealand withdrew its alloy coinage and issued 295 million multi-ply coins produced by the Mint. The contract confirms the superior nature of the Mint's multi-ply technology, bringing the number of countries that use the Mint's plating technology to 12, including Canada.
- The licensing of Jarden Zinc Products, Inc. to produce one billion multi-ply plated blanks a year. Jarden began producing blanks for the Mint in October 2006.
- Continued fulfillment of the Mint's contracts to produce coins for Thailand. The Mint secured another contract in 2006 to produce 600 million one Baht coins in 2006 and 2007. To fulfill this contract, the Royal Canadian Mint Group was formed with the Indian Government Mint and two Indian blank manufacturers. The Mint provides the Indian Government Mint with tooling made in Winnipeg along with the staff to supervise striking in order to ensure the quality matches the standards established in Canada.

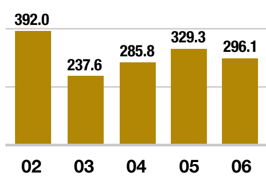
Outlook: The unprecedented increase in metal prices that dampened sales of alloy coins in 2006 has also forced many governments to look at plated technologies, including the Mint's low cost multi-ply coinage. The Mint's technology substantially reduces the amount of copper and nickel required to produce a coin, thus reducing the cost of manufacture by about 60%. The multi-ply technology also offers many technical advantages over competitors' single-ply plated solutions, including higher production efficiencies and the customization of the electronic magnetic signature for additional security against unwanted imports or slugs. By the end of 2006, the foreign sales team had secured orders for more than 2 billion pieces in 2007.

To sustain growth, the Mint plans to:

- Double its capacity from three billion to six billion plated blanks by licensing at least two suppliers.
- Work with existing partners, such as Jarden Zinc Products, Inc., to expand capacity while also actively looking for future partners.

- Purchase high-speed striking presses capable of meeting the increased demand for Canadian coinage and the anticipated growth in foreign demand.
- Continue to enhance visibility and marketing through visits to the 25 countries most likely to convert to multi-ply technology and participation in key bank and mint conferences around the world. In 2006, the Mint participated in the Mint Directors Conference in Paris and the annual meeting of the International Monetary Fund in Singapore. It also hosted the Technical Committee of the Mint Directors Conference with 35 representatives from 15 foreign mints and minting suppliers touring the Mint's facilities in Ottawa and Winnipeg.
- Continue to use Canada's foreign trade and diplomatic representatives to build awareness of the Mint's capabilities and relationships – existing and potential – with foreign central banks.
- Mine the history of data collected in the Product Lifecycle Management (PLM) system since its launch in 2004. Using this data, the Mint can provide potential customers with quotes within days of request. This rapid response capability is essential to competing effectively against other Mints for foreign contracts.

Sales of gold bullion products
(thousands of ounces)



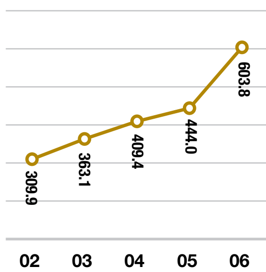
A variety of factors will influence the ability of the Mint to secure contracts to produce foreign coins and blanks. Continued growth in the population and economies of developing regions of the world, particularly Africa, increases demand for coinage for efficient commerce while governments seek to reduce costs. Higher base metal prices will continue to encourage foreign governments to consider the Mint's cost effective patented multi-ply plated process.

Bullion and refinery

The Mint produces and markets a family of gold, silver and palladium Maple Leaf bullion coins as well as high purity 9999 and 99999 precious metal products, gold and silver granules for the jewellery industry and industrial applications, gold wafers and kilo bars. It has operated a gold refinery since 1911 and opened a silver refinery in 2006, offering Canadian and foreign customers an integrated solution to gold and silver processing from refining through to state-of-the-art assaying and secure storage.

Summary of results: Bullion and refinery revenues increased modestly by 25.1% to $280.7 million from $224.4 million in 2005 with increased bullion and refinery volumes. Sales of Gold Maple Leaf coins decreased while sales of wafers and bars increased for a combined decrease of 10.1% to 296,097 ounces from 329,329 ounces in 2005. Silver Maple Leaf sales increased 133.1% to 2,475,990 ounces from 1,062,000 ounces in 2005. The volume of precious metals refined increased by 52% to 5.0 million ounces from 3.3 million ounces in 2005.

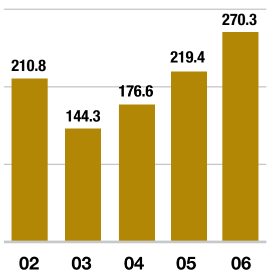
Average price of gold
(US$ per ounce)



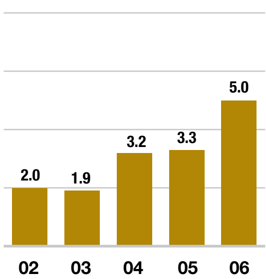
Explanation of results: The price of gold and other precious metals remains volatile. In the first eight months of 2006, the gold price averaged $600 US reaching a high of $725 US in mid 2006 before falling to $635 US by the end of the year. The price of silver climbed from an average price of $7.3 US an ounce in 2005 to a peak price of $15 in mid 2006, closing the year at $12.90. Demand for gold continues to be driven by geopolitical tensions in the Middle East, North Korea and Afghanistan, the U.S. trade and fiscal deficits and the devaluation of the U.S. dollar. At the same time, supply remains constrained. Gold producers are not hedging their production and few governments are selling central bank gold holdings.

While rising gold prices create interest in bullion as an investment, it continues to encourage investors holding bullion to capture their profit by selling their coins in the secondary market.

Bullion product revenue
($ in millions)



Refining services
(gross weight received
in millions of troy ounces)
** includes all metals*



This reduces demand for newly minted bullion coins. This was particularly true in Japan, the largest Asian market for the Mint's bullion coins, where the Maple Leaf also faced intense competition from bullion coins minted by the Austrian Mint. During the year, the U.S. Mint launched a new bullion coin called the Buffalo. At 9999 gold it is of significantly higher purity than its traditional 91.66% Eagle. It remains too early to determine the long-term impact of this coin on sales of the Mint's bullion coins, but it did not capture widespread investor interest in its first year on the market. Since the Gold Maple Leaf is sold in U.S. funds, continued strength of the Canadian dollar reduces revenue in Canadian currency.

The silver bullion market has been dominated by the U.S. Mint for decades, with the Silver Maple Leaf traditionally capturing about 9% of the market. In 2006, the Mint invested in new packaging and worked closely with the distribution network to promote its silver bullion coins. As a result, sales climbed rapidly to increasing the Mint's market share to close to 20%. The sale of the half-ounce Silver Maple Leaf, introduced to the market in 2005, was discontinued for lack of demand.

Palladium prices increased by 80% to a peak price of $404 USD per ounce from $258 USD at the end of 2005. Sales of palladium coins were lower than anticipated in 2006.

In refining, an escalating gold price also drives demand for refining services as more scrap material flows into the market for recycling and mine owners rush to increase production. Refining volumes at the Mint also increased with the building of a silver refinery capable of expanding to 10 million ounces. The commissioning of the silver refinery not only creates a new source of revenue and income, it enhances the competitiveness of the Mint's gold refinery. Silver is a by-product of gold and the ability to offer both gold and silver refining capabilities will provide added value to customers when the Mint is competing for processing contracts. It is anticipated the silver refinery will be running at full capacity by the end of 2007.

To increase visibility in the marketplace, the Mint participated in major industry conferences, including those held by the International Precious Metals Institute, the London Bullion Market Association, the Prospectors and Developers Association of Canada and the China Gold and Precious Metals Summit in China. Attending the summit in China gave the Mint the opportunity to explore opportunities within this very large market for gold.

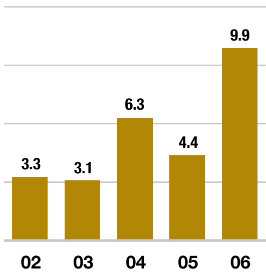
Outlook: Demand for precious metals is expected to remain strong as global economic and geopolitical circumstances remain unstable. As anticipated, the 2005 federal budget expanded the list of eligible investments for RRSPs to include precious metals. Canadians can now own and trade gold within their registered plans. Eligible gold products are investment grade bars and Royal Canadian Mint coins with a minimum purity of 99.5%.

Reflecting the legislative changes, the Mint researched and began development of a variety of products and services including the storage of bullion products for consumers on an allocated basis. In 2007, the Mint plans to expand its storage services to include the storage of products on an allocated-unallocated basis. Other exchange-traded products are also under consideration. The goal is to provide investors with efficient, low cost and liquid ways to invest and trade in gold.

Sales of refining services and silver Maple Leafs are expected to remain strong with sales of gold Maple Leafs remaining flat as old coins continue to flood into the secondary market. Sales of palladium coins are expected to strengthen as investors adjust to the price.

In 2007 the Mint's bullion and refining business will be enveloped by Phase II of the ERP implementation. Web-based systems will be developed to provide better service for mining customers, grow the bullion storage program and support new business models and opportunities.

Refining services revenue
($ in millions)



Other

TGM Specialty Services Inc. (TGM) is a business-to-business operation that provides packaging products and services to the Mint and other domestic and international clients, including turnkey customer solutions that include assembly, distribution and retail management expertise.

TGM's medium to long term vision remains the implementation of the business development strategy identified in 2001:

- Potential joint ventures for distribution of collectibles,
- Strategic vertical integration,
- Direct marketing and e-commerce, and
- Products and services that require high-security environments.

TGM will continue to expand its turnkey product management and manufacturing business and leverage its relationship with the United States Bureau of Engraving and Printing and the United States Mint. It will also continue to pursue new market opportunities.

TGM is a joint venture, 50% owned by the Mint through its subsidiary RCMH-MRCF Inc., and 50% by Travelway Group International Holdings Inc. As a result, 50% of TGM's activity is included in the Mint's financial statements.

In support of the business strategies

Marketing and Sales

Marketing and Sales costs declined in 2006 to 39.8 million compared to $43.3 million in 2005. Sales of gift sets increased by 2.6% to $3.9 million in 2006 from $3.8 million in 2005. A decline in the sale of the traditional gift sets, was offset by a substantial increase in sales of new gift sets such as the series of six coin sets for Canadian NHL teams.

In 2006 the Marketing and Sales team were focused on developing a circulation and numismatic program for the Vancouver 2010 Olympic and Paralympic Winter Games. During the year, the marketing team developed 17 circulation coins, 36 numismatic coins and products and 15 gift products to be launched between 2007 and 2010. It also developed the advertising and public relations strategies that will drive awareness and sales of the Vancouver 2010 coin program. Television creative, print advertising, direct marketing programs, e-commerce and web programs were in production by the end of the year.

Other major initiatives included:

- A shift in marketing emphasis to direct marketing, the Mint's most profitable sales channel. Several initiatives will enhance the effectiveness of the Mint's direct marketing programs including the refinement of customer segments by purchasing patterns and the adoption of e-search marketing strategies.
- A change in the Mint's retail strategy from national mass retailers to national and regional specialty retailers. While the marketing and sales efforts will be on direct marketing, the Mint will participate in retail marketing campaigns with other Vancouver 2010 partners such as the Hudson's Bay Company, RBC and Petro-Canada.
- The launch of four commemorative circulation coins with themes that celebrate Canadian history, culture and values. This helps the Mint fulfill its corporate objective of celebrating Canada while expanding awareness of its products and building interest in coin collecting.
- The launch of standard packaging developed in 2005 reduced costs by $700,000 as well as damage during shipment. A second generation of standard packaging was developed during 2006 to further reduce cost of goods sold.
- Sales through the website continued to increase, climbing 7% to $6.3 million compared to $5.9 million in 2005. In 2007 further refinements to the website will be made to enhance sales of collector and gift products.
- Enhancements to the gift sets with refinements to the design of the coins, offering more contemporary themes.

Information Technology

The Information Technology (IT) department provides day-to-day technical support for the Mint's computing and communication systems and implements new technologies and applications. During 2006, the Mint launched a comprehensive enterprise-wide replacement of core business system platforms. This upgrade will allow the Mint to meet the growing demand for Canadian circulation coins and compete more effectively in all business lines.

Enterprise Resource Planning (ERP)

During 2006, the Mint focused on beginning the implementation of a modern, robust, comprehensive and user-friendly ERP system. Following a thorough review of the Mint's needs and a rigorous process, the Mint selected the Microsoft Dynamics AX platform.

Phase I of the new system is under construction with launch scheduled for April 2007. This phase includes manufacturing and maintenance for the plants in Winnipeg and Ottawa, order management, procurement and all financial systems. It will enhance customer relations and enable major cost savings by supporting the Mint's *Lean Enterprise* approach.

Phase II, to begin during 2007, will integrate warehouse management and distribution, the PLM system and human resources as well as the development of specialized refinery and assay systems, business to business e-commerce, expanded customer relationship management capabilities and business intelligence. The goal is to deliver information that meets the specific needs and functions of individuals and departments while improving predictive capabilities, transparency and accountability.

E-Business and web site enhancements

Web enhancements included rebuilding the ergonomics of the consumer shopping function, a portal for prestige accounts and gift cards. Implementation of the ERP system will expand the functionality of the business partners' portal allowing them to place orders and monitor shipments. During the year a program to support e-commerce activities, such as a refresh for the Olympic program and the selling of collector and gift products, was developed.

The Everest Customer Feedback system continued to evolve during 2006 with integration into the Mint's website. This system allows the Mint to track, respond to and report on customer feedback efficiently with a consistent process across all channels and all points of contact with the Mint's retail and business customers.

A Board of Directors' portal was created to provide directors with access to information relevant to their responsibilities.

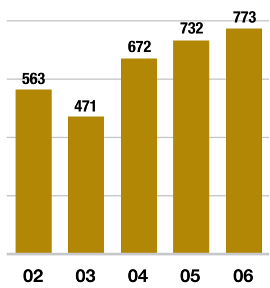
Statistical Process Control

A refined process for collecting information related to manufacturing was created and integrated into the PLM. This enhances quality control in Ottawa and Winnipeg during the manufacturing of numismatic, domestic and foreign coins.

Corporate business continuity

During 2006, the IT department also launched the development of a corporate business continuity plan. Once completed in 2007, the Mint will be prepared to protect its plants and recover efficiently from a serious business disruption or computer related failure such as a disaster that prohibits access to the Mint's facilities or a pandemic that disrupts the workforce.

Number of employees
(at December 31)



Human Resources Management and *Lean Enterprise*

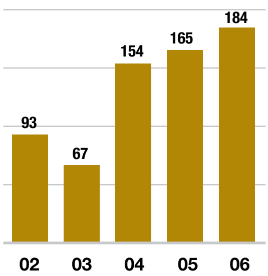
The Human Resources and *Lean Enterprise* division assists the Mint in meeting its corporate and strategic goals through recruitment, training, employee relations, organizational development and pay and benefits activities and programs. It also manages quality systems using the ISO 9001:2000 international standards to continuously improve the Corporation's operating performance.

The Mint was honoured as one of Canada's Top 100 Employers of the Year by *Maclean's* magazine. As part of this award, the Mint was also identified as one of the Top 15 Employers in the National Capital Region and one of Canada's Top 10 Family Friendly Employers by *Today's Parent* magazine. These awards reflect the Mint's commitment to building an organization that values its employees, encourages creativity and rewards commitment to the Corporation.

Employment at the Mint increased to 773 employees by the end of 2006 from 732 employees at the end of 2005, including permanent and temporary employees. Wages and benefits increased to $53.2 million from $47.9 million in 2005. The increase reflects the substantial increase in the volume of coins produced by the Mint, particularly in Winnipeg, and the need to build a skilled labour force to meet the anticipated growth.

Spending on training increased 14.3% from $0.7 million in 2005 to 0.8 million in 2006. In 2007, the replacement of the legacy IT system will focus training priorities on change management and

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



training most of the Mint's employees in the use of the new ERP system. While this will dominate next year, training initiatives at the Mint are conducted in eight areas:

- **Coaching skills:** Creating an environment where all employees work effectively and productively.
- ***Lean Enterprise*:** Training employees to identify and remove waste and to create flow.
- **Culture:** Managing the impact of changes on people, promoting high-performing Kaizen teams and improving the Mint's culture of communication, trust, accountability and problem-solving responsibility across departments.
- **Customer service and sales training:** Enhancing core selling techniques and skills, providing sales managers and key support employees with the framework, communication skills and planning tools they need to build and maintain a more effective sales team.
- **ERP training:** Providing ERP team members with functional training related to finance and general ledger, manufacturing, inventory management, order entry and customer returns. Technical training in Axapta Developer and Biztalk is also being provided to ensure they are able to implement ERP effectively and efficiently.
- **Harassment, discrimination and violence in the workplace:** Continuing to create a culture of trust and respect in order to ensure that the Corporation and its people prosper.
- **Second language training:** Training employees who do not meet the bilingual requirement of their position and to all interested employees.
- **Wellness:** Helping employees who want to stop smoking and promoting healthy living.

Health, Safety, Security and Environment

Protection of the environment and people is a core value of the Mint and the responsibility of every employee. The Health, Safety, Security and Environment (HSSE) department supports each business line and functional department to ensure operations comply with safety and environmental legislation. The HSSE department is also responsible for security operations and the protection of corporate assets.

In 2006, the corporate accident frequency rate increased at both plants for a consolidated increase to 5.5% from 4.3% in 2005. The severity rate increased in Ottawa and in Winnipeg to produce a consolidated severity rate of 66.0% compared to 34.0% in 2005. The increase in accident frequency and severity reflects the large number of new employees at both plants and the demands made on all employees to meet the rapid and substantial increase in production, particularly in Winnipeg. The Mint launched an aggressive awareness program in an attempt to reduce accidents and injuries. In 2007, this awareness program will be supplemented with employee training.

The Mint completed the health and safety audit of the Mint's facility in Ottawa through the National Intervention Model, an initiative of Human Resource and Skills Development Canada (HRSDC) designed to promote a healthier and safer workplace. Potential improvements were identified and implemented.

Employees in Winnipeg received training in the Mint's revised health and safety policies. These policies, which had been refined in 2005, define the responsibilities of each employee and clarify the function and reporting requirements of the Health and Safety Committee at the plant. Training will continue in Ottawa in 2007.

Several initiatives were also undertaken to reduce the Mint's impact on the environment:

- New die coating technology tested in Ottawa as a replacement for traditional chrome plating proved capable of delivering the quality coating required by the Mint. The chrome plating operation was dismantled.
- An automated lacquer coating system replaced the manual coin lacquering system, an environmentally friendly solution.
- The Mint removed all remaining asbestos from the Ottawa facility. Removal of all asbestos from the Winnipeg facility will continue in 2007 for completion in 2009.
- The Mint continued to retrofit the energy systems in Ottawa. This retrofit allows the Mint to produce its own heat and cooling. This new system is more cost efficient and environmentally friendly and improves air quality in the building.
- The Mint developed the capability to supply its own hydrogen requirements. At the same time, consumption of hydrogen will be reduced by 50%. This system is more efficient and eliminates the need to purchase hydrogen.

The completion of the plating expansion in Winnipeg will permit the installation of a sludge dryer capable of recycling wastewater treatment sludge generated by the plant. This sludge dryer will recover metal content from the sludge and reduce the amount of waste sent to landfill.

In the refinery, improvements to the exhaust abatement system will divert exhaust that does not contain chlorine from the electrostatic precipitator to a cartridge filter mechanism. The new mechanism will be more effective, easier and safe to maintain, and require less space than the existing system. The treatment of exhaust that does include chlorine will be improved with the installation of scrubbers.

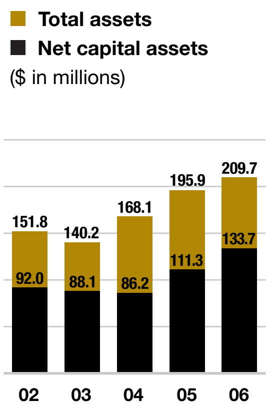
The Mint continuously assesses and mitigates security risks through strict adherence to secure operating procedures. Those risks are exacerbated as the Corporation becomes increasingly virtual and the work force more mobile. Corporate systems are being opened to various partners while employees require wireless access to corporate databases and instant communication from around the world. The ERP system will allow the Mint to implement measures to ensure the privacy, security and integrity of customer and employee information and the Mint's intellectual assets.

At the same time the Mint must be protected against external physical threats, including theft, attack and terrorism. In 2006, the Royal Canadian Mounted Police (RCMP) audited security procedures to ensure the Mint is adequately protected from these threats. Minor improvements were identified and implemented. The Mint also updated the security console with new technology to improve its ability to monitor operations in the facility and identify security threats.

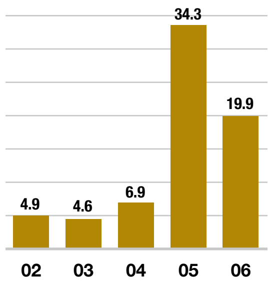
The Mint also cooperates with the RCMP to identify and eliminate threats to the integrity of Canada's circulation coins and distribution system.

Liquidity and capital resources

At the end of 2006, the Mint had a cash and cash equivalents balance of $4.2 million compared to a balance of bank indebtedness and cash and cash equivalents balance of $19.0 million at the end of 2005. This increase in cash balance reflects the strong growth enjoyed by the Mint during the year. Inventories increased to $40.3 million from $33.0 million in 2005 in order to meet market



Capital expenditures
($ in millions)

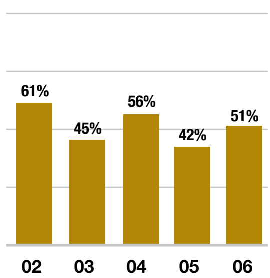


demand and production requirements. This increase reflects the strong growth in sales. As a result of working capital requirements, the Mint had incurred new short-term borrowings of $12.7 million by the end of the year.

Financing: By December 31, 2006, the Mint had reduced the plating facility debt by $3.1 million to $9.3 million with a scheduled repayment of principal. It also made a scheduled $1.0 million repayment of principal on a 10-year debt due December 2007, reducing the outstanding principal to $1.0 million. At the end of 2006, total outstanding long-term loans increased to $17.1 million and the Mint's debt-to-equity ratio decreased to 0.83:1 from 0.88:1 at the end of 2005. In 2007, the Mint anticipates to refinance its short-term borrowings with a long-term loan of $20 million to improve working capital and reduce interest expenses. This will also better facilitate asset and liability matching. Timely accounts receivable collections and practical credit policies ensure working capital management continues to support the financial requirements of the Mint.

Capital expenditures: Net capital expenditures decreased to $19.9 million in 2006 from $34.3 million in 2005. The most significant projects included:
- The completion of the plating expansion project in Winnipeg.
- The commissioning of a new silver refinery in Ottawa.
- Near completion of the energy retrofit of the Mint's facilities in Ottawa. It is anticipated this project will be completed in 2007.
- The purchase, installation and commissioning of an automatic numismatic press to produce proof coins.
- Initiated Phase I of the new ERP system. The cost of both Phases of the new system approaches $11 million, with $4.5 spent in 2006.
- Investments in the Mint's buildings and equipment to improve reliability and flexibility as well as the health and safety of employees. At the plant in Ottawa, these capital projects included repairs to masonry walls, an upgrade to the finishing mill and an overhaul of the coin press. In Winnipeg, repairs were made to the road leading to the plant and the parking lot and improvements to the ventilation system to improve airflow and reduce the temperatures in the plant during the summer.
- Installation of a hydrogen generator in Winnipeg to eliminate dependence on external suppliers.

Export sales as a percentage of total revenue



Risks to performance

Precious metal risk: The Mint purchases four precious metals – gold, silver, platinum and palladium. These metals are used in the Maple Leaf and numismatic coins. The Mint is not exposed to price risk as a result of a change in price in the 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 in the same currency. For numismatic products, risk is mitigated through a precious metal risk management hedging program involving forward contracts.

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 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 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.

Outlook

The Mint operates within an environment of volatile metal pricing. However, it anticipates the economy and trends within its market place will continue to support its goals of profitable growth and continued generation of seigniorage revenue for the Government of Canada. Public and private sector forecasters anticipate Canadian economic growth of about 3.0% in 2007, which will continue to drive increased demand for circulation coinage. Higher base metal prices will increase the cost of the $1 and $2 coins, which will reduce seigniorage, but could support increased revenue from the ARP. It will also continue to place pressure on governments around the world to seek more cost effective coinage.

Further increases in gold and silver prices would continue to drive demand for the Mint's bullion products and refining services. A rich palette of circulation and numismatic products commemorating the Vancouver 2010 Olympic and Paralympic Winter Games has been developed combining both the Mint's artistic and technical skills and the Mint's capacity has been expanded physically and through partnerships to ensure the capacity to meet anticipated demand.

During 2006 the groundwork for a new ERP system was laid with implementation planned over 2007. At the same time every aspect of the Mint's operations and processes have been reviewed to identify ways to reduce costs while delivering an increasing growth curve.

The Mint's financial condition is strong. In 2006, it achieved a third consecutive year of profitability and growth. However, the Mint operates an international business that is affected by the health of the Canadian, U.S. and global economies, fluctuations in exchange rates, base and precious metal prices as well as intense competition from other mints around the world. Although these factors may impact anticipated profits, the Mint is planning to sustain profitability and continue to grow both in terms of revenue and income through to 2011.

Statistics

Table 1 – Canadian circulation coinage

Production in 2004, 2005 and 2006(1)

	2006 Total Pieces	2005 Total Pieces	2004 Total Pieces
Coinage dated 2003			
$2	**-**	-	-
$1	**-**	-	-
50¢	**-**	-	-
25¢	**-**	-	17,871,000
10¢	**-**	-	2,218,000
5¢	**-**	-	9,012,000
1¢	**-**	-	8,095,000
Coinage dated 2004			
$2	**-**	1,000	12,907,000
$1	**-**	960,000	9,934,000
50¢	**-**	-	-
25¢	**-**	6,552,000	203,495,000
10¢	**-**	1,100,000	211,925,000
5¢	**-**	840,000	123,085,000
1¢	**-**	62,358,000	780,128,000
Coinage dated 2005			
$2	**-**	38,317,000	-
$1	**90,000**	44,285,000	-
50¢	**-**	200,000	-
25¢	**-**	269,586,000	-
10¢	**275,000**	211,075,000	-
5¢	**-**	148,082,000	-
1¢	**39,600,000**	727,825,000	-
Coinage dated 2006			
$2	**30,279,000**	-	-
$1	**39,140,000**	8,350,000	-
50¢	**98,000**	-	-
25¢	**473,027,000**	-	-
10¢	**311,847,000**	-	-
5¢	**182,316,000**	-	-
1¢	**1,160,408,000**	-	-
Total (all dates)			
$2	**30,279,000**	38,318,000	12,907,000
$1	**39,230,000**	53,595,000	9,934,000
50¢	**98,000**	200,000	-
25¢	**473,027,000**	276,138,000	221,366,000
10¢	**312,122,000**	212,175,000	214,143,000
5¢	**182,316,000**	148,922,000	132,097,000
1¢	**1,200,008,000**	790,183,000	788,223,000
Total	**2,237,080,000**	1,519,531,000	1,378,670,000

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

Table 2 – Canadian circulation coinage

Cumulative production up to December 31, 2006[1] [2]

	2002	2003	2004	2005	**2006**
$2	27,020,000	11,244,000	12,908,000	38,317,000	**30,279,000**
$1	2,301,000	5,102,000	10,894,000	44,375,000	**47,490,000**[3]
50¢	14,440,000	-	-	200,000	**98,000**
25¢	187,992,000	100,638,000	210,047,000	269,586,000	**473,027,000**
10¢	252,563,000	164,617,000	213,025,000	211,350,000	**311,847,000**
5¢	135,960,000	101,793,000	123,925,000	148,082,000	**182,316,000**
1¢	830,040,000	748,123,000	842,486,000	767,425,000	**1,160,408,000**

(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.
(3) Includes the 2006 Lucky Loonie commemorative circulation coin which was produced in 2005.

Table 3 – Canadian circulation coinage

Coinage issued in 2006[1] - Geographic distribution[2]

Province City [3]	$2	$1	50¢	25¢	10¢	5¢	1¢
Newfoundland							
St. John's	41,000	248,000	-	1,250,000	3,767,000	2,260,000	21,035,000
New Brunswick							
Saint John	1,165,000	1,095,000		4,962,000	3,870,000	2,664,000	21,062,000
Nova Scotia							
Halifax	-	-	-	2,718,000	8,828,000	6,142,000	75,105,000
Quebec							
Montreal	2,120,000	1,705,000	-	17,516,000	13,363,000	8,250,000	39,032,000
Quebec City	2,825,000	2,712,000		42,014,000	50,415,000	30,666,000	165,583,000
Ontario							
Ottawa	444,000	2,046,000	-	20,962,000	18,457,000	10,612,000	64,695,000
Toronto	12,031,000	14,218,000	-	16,378,000	113,293,000	72,622,000	591,830,000
Manitoba							
Winnipeg	32,000	3,886,000	-	6,594,000	11,710,000	7,488,000	50,415,000
Saskatchewan							
Regina	777,000	388,000	-	4,636,000	7,182,000	4,072,000	29,647,000
Alberta							
Calgary	241,000	4,579,000	-	17,194,000	21,813,000	12,288,000	74,938,000
Edmonton	4,045,000	7,219,000	-	24,196,000	33,122,000	19,342,000	107,475,000
British Columbia							
Vancouver	7,329,000	6,655,000	-	32,580,000	48,890,000	30,846,000	162,542,000
Sundry persons [4]	191,000	-	98,000	27,694,000	238,000	350,000	2,418,000
Total	31,241,000	44,751,000	98,000	218,694,000	334,948,000	207,602,000	1,405,777,000

(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, 2006 bearing the dates 2005 and 2006 [1]

	2006	2005[2]
$50 Palladium – Autumn	**296**	-
$50 Palladium – Spring	**297**	-
$50 Palladium – Summer	**296**	-
$50 Palladium – Winter	**293**	-
.99999 $350 Gold Coin	**1,969**	1,634
1 Ounce Palladium Maple Leaf Coin A	**-**	146
1 Ounce Palladium Maple Leaf Coin B	**-**	144
1/25 Ounce Gold Maple Leaf 24-Karat Gold	**12,879**	13,993
1/25 Ounce Gold Maple Leaf 24-Karat Gold in Capsules	**7,160**	11,000
1/4 Ounce Gold Double Privy	**-**	500
1/4 Ounce Gold Laser Privy	**1,093**	600
10th Anniversary $2 coin	**2,065**	-
14-Karat $100 Gold Coin	**5,402**	5,092
2004 Annual Report with 25-cent Poppy Coin	**-**	12,677
2005 Annual Report with Coin (English)	**-**	5,213
2005 Annual Report with Coin (French)	**-**	852
2005 Remembrance Day Bundle	**-**	365
22-Karat $200 Gold Coin	**3,185**	3,699
5 Ounce Silver Coin	**1,986**	-
60th Anniversary Liberation of Netherlands	**-**	3,500
60th Anniversary End of World War II	**-**	81,850
60th Anniversary End of World War II Set [3]	**-**	44,367
Baby Gift Set [5]	**33,786**	42,245
Baby's Lullabies CD and Silver Coin	**18,103**	-
Baby Sterling Silver Coin Set	**3,863**	-
Birthday Gift Set [5]	**11,984**	20,227
Breast Cancer Bookmark with 25-cent Painted Coin	**40,911**	-
Britannia 14-Karat Gold Coin	**940**	994
BU Dollar	**27,254**	50,948
Butterflies Series	**23,201**	35,690
Canada Celebration	**-**	39
Canada Day 25-cent Colored Coin	**29,760**	58,370
Canadian Achievements Coin – Canadarm & Col. Chris Hadfield	**565**	1,199
Canadian Achievements Sterling Silver Coin – Canadarm & Col. Chris Hadfield	**9,357**	-
Canadian Architecture Series	**30,353**	-
Canadian Flowers Series	**12,687**	17,771
Chinese Railworkers	**-**	9,892
Collector Circulation First Day Cover		
$1	**901**	2,048
$2	**1,842**	2,501
10-cent	**680**	1,961
10th anniversary $2	**4,991**	-
1-cent	**712**	1,919
25-cent	**717**	1,911
25-cent Alberta	**-**	9,108
25-cent Breast Cancer	**7,256**	-
25-cent Saskatchewan	**-**	6,980
25-cent Veteran's	**-**	8,361
50-cent	**933**	2,445
5-cent	**710**	1,951
5-cent Victory	**-**	11,192
Lucky Loonie	**7,327**	-
Medal of Bravery	**4,696**	-
Terry Fox $1	**-**	19,933
Commemoration of Pope John Paul II – Silver Coin	**-**	24,716
Commemoration of Pope John Paul II – Gold Coin	**-**	1,870

Table 4 – Canadian numismatic coinage *(continued)*	**2006**	2005[2]
Congratulation Gift Set [5]	**9,407**	-
Dog Sled Team	**6,797**	-
Endangered Wildlife Set [4]	**-**	7,942
Fine Silver Coin – Pink Ribbon	**11,048**	-
Gold Maple Leaf Privy Mark	**-**	1,353
Graduation Gift Set [5]	**-**	12,411
Hockey Gift Sets [5]	**69,697**	-
Hockey Legends Set [5]	**-**	11,765
Holiday Gift Set [5]	**99,258**	72,831
Land, Sea & Air	**-**	1,717
Lighthouses	**-**	14,006
Louis d'Or	**4,275**	-
Lucky Loonie - Sterling Silver Coloured Coin	**19,956**	-
Lucky Loonie Bookmark	**10,095**	-
Lunar Cameo Series	**41,617**	44,690
Lunar Hologram – 18-Karat Gold Coin Series	**2,604**	3,731
Medal of Bravery – Enameled	**4,951**	-
Medal of Bravery Coin	**7,846**	-
National Historic Sites	**5,329**	-
National Parks Series	**19,346**	21,695
Oh Canada! Gift Set [5]	**28,025**	40,890
Pope John Paul II Silver & Gold Coin 2005 [3]	**-**	9
Poppy Bookmark	**-**	29,975
Proof Set [6]	**53,109**	63,562
Proof Set – Canadian Numismatic Association [6]	**200**	197
Proof Silver Dollar	**54,835**	95,431
Proof Silver Dollar Enameled	**-**	4,898
Québec Winter Carnival Gift Set [5]	**8,095**	-
Queen's 80th Birthday – 25-cent Coin	**24,845**	-
Queen's 80th birthday – $300 Gold Coin	**996**	-
Royal Canadian Mint-Canada Post Corporation:		
$5 Deer Coin & Stamp	**-**	6,439
$5 Falcon Coin & Stamp	**6,145**	-
$5 Sable Island Horse and Foal Coin & Stamp	**7,589**	-
$5 Snowbirds	**7,896**	-
$5 Walrus Coin & Stamp	**-**	5,519
Silver Maple Leaf Battleship Privy	**-**	6,998
Silver Maple Leaf Coloured Coin Series	**12,087**	21,233
Silver Maple Leaf Good Fortune Coin	**-**	19,888
Silver Maple Leaf Tank Privy	**-**	6,998
Snowflake Coin	**861**	-
Specimen Set [5]	**39,935**	39,818
Square Beaver $3 Coin	**19,963**	-
Tall Ships Series	**10,299**	18,276
Totem Pole 14-Karat Gold Coin	**-**	948
Totem Pole Sterling Silver Coin	**-**	948
Uncirculated Set [5]	**92,763**	114,650
War Monuments	**8,761**	-
Wedding Gift Set [5]	**8,012**	11,597
Year of the Veteran – $10 Fine Silver	**-**	6,549
	1,015,472	1,206,867

(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) Two coin set
(4) Four coin set
(5) Seven coin set
(6) Eight coin set, including $2, $1 (Sterling Silver) and a $1 (Loon Aureate)

Table 5 – Maple Leaf coinage

Sales in ounces for 2005 and 2006

	2006	2005
Gold Maple Leaf Coinage		
$50 (9999 Au)	**209,937**	281,647
$20 (9999 Au)	**10,569**	10,026
$10 (9999 Au)	**6,491**	6,437
$5 (9999 Au)	**4,096**	3,038
$1 (9999 Au)	**967**	511
Total (ounces)	**232,060**	301,659
Silver Maple Leaf Coinage		
$5 (9999 Ag)	**2,464,727**	955,694
Total (ounces)	**2,464,727**	955,694
Palladium Maple Leaf Coinage		
$50 (9995 Pd)	**68,707**	62,919
Total (ounces)	**68,707**	62,919
Silver Bullion (ounces)		
$1 (9999 Ag)	**22,525**	53,400
Total (ounces)	**22,525**	53,400

Table 6 – Refinery operations

For 2005 and 2006

	Gross weight (Troy ounces)		Refined gold (9999) produced (Troy ounces) [1]		Refined silver (999) produced (Troy ounces) [2]	
	2006	2005	2006	2005	2006	2005
Deposits from Canadian Mines						
Québec	**517,337**	529,282	**327,996**	326,173	**127,916**	181,029
Ontario	**496,749**	481,703	**256,836**	306,446	**39,665**	47,270
Total	**1,014,086**	1,010,985	**584,832**	632,619	**167,581**	228,299
Deposits from other sources	**3,773,874**	2,757,943	**2,000,704**	1,504,064	**170,599**	361,932
Total	**4,787,960**	3,768,928	**2,585,536**	2,136,683	**338,180**	590,231

(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.

Table 7 – Canadian circulation coinage

Commemorative/regular designs and plated/non-plated coin production in 2003-2006

	2003	2004	2005	**2006**
1 Cent (CPZ)	149,096,000	653,317,000	759,658,000	**1,062,275,000**
1 Cent (CPS)	591,257,000	134,906,000	30,525,000	**137,733,000**
5 Cent (CN)	-	-	-	**43,008,000**
5 Cent (P)	94,379,000	132,097,000	89,664,000	**139,308,000**
5 Cent - Victory	-	-	59,258,000	-
10 Cent (N)	-	-	-	-
10 Cent (P)	163,684,000	214,143,000	212,175,000	**312,122,000**
25 Cent - Caribou (N)	-	-	-	-
25 Cent - Caribou (P)	87,647,000	177,466,000	206,346,000	**423,189,000**
25 Cent Poppy	-	28,500,000	472,000	-
25 Cent L'Acadie	-	15,400,000		-
25 Cent Alberta	-	-	20,640,000	-
25 Cent Saskatchewan	-	-	19,290,000	-
25 Cent Veteran	-	-	29,390,000	-
25 Cent Breast Cancer	-	-	-	**29,798,000**
25 Cent Medal of Bravery	-	-	-	**20,040,000**
One Dollar	5,101,000	3,408,000	32,336,000	**37,085,000**
One Dollar - Lucky Loon	-	6,526,000	8,350,000	**2,145,000**
One Dollar - Terry Fox	-	-	12,909,000	-
Two Dollar	11,256,000	12,907,000	38,318,000	**25,274,000**
Two Dollar 10th Anniversary	-	-	-	**5,005,000**

(CPS) Copper plated steel
(CPZ) Copper plated zinc
(CN) Cupro nickel
(N) Nickel
(P) Plated

Consolidated financial statements

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 the 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, the internal auditor 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 meets to review the consolidated financial statements with the internal and external auditors and submits its report to the Board of Directors. The Board of Directors reviews and approves the consolidated financial statements.

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

Ian E. Bennett
President and
Chief Executive Officer

Richard J. Neville FCA
Vice President, Finance and Administration and
Chief Financial Officer

Ottawa, Canada
February 23, 2007

Audit Committee report

The Audit Committee's (Committee) role is to act on behalf of the Board of Directors (Board) and oversee all material aspects of the Corporation's reporting, control, and audit functions, except those specifically related to the responsibilities of another standing committee of the Board. The Committee's role includes a particular focus on the qualitative aspects of financial reporting to the Shareholder and on the Corporation's processes for the management of business/financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements.

As at December 31, 2006, the Committee was comprised of four (4) independent directors who are neither officers nor employees of the corporation. These members are: Marc Brûlé (Chair), Thomas Taylor, Keith Meagher and Richard Kwan. Also, as an Ex-officio member, is Max Lewis, Chairperson of the Board. The Board believes that the composition of the Committee reflects a high level of financial literacy and expertise.

During the past fiscal year, the Committee held nine (9) meetings. In fulfilling its responsibility, the Committee:

- discussed with the internal and external auditors the overall scope and specific plans for their respective audits;
- discussed the Corporation's progress, throughout the year, on their financial results and overall performance;
- discussed the Corporation's annual consolidated financial statements, accounting principles and policies, and the adequacy of the Corporation's internal financial controls;
- reviewed management's response and in some circumstances, their actions, regarding recommendations of the internal and external auditors; and
- met regularly with the Corporation's internal and external auditors, without management present, to discuss the results of their examinations, their evaluations of the Corporation's internal financial controls, and the overall quality of the Corporation's financial reporting.

The meetings also were designed to facilitate any private communications with the Committee that the internal or external auditors desired.

Richard Kwan, CA
Vice Chair, Audit Committee

Auditor's report

To the Minister of Transport, Infrastructure and Communities

I have audited the consolidated balance sheet of the Royal Canadian Mint as at December 31, 2006 and the consolidated statements of operations and retained earnings and cash flow 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, 2006 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

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
February 23, 2007

Consolidated balance sheet

as at December 31 (in thousands of dollars)

	2006	2005
Assets		
Current		
Cash and cash equivalents	$ 4,222	$ 1,240
Accounts receivable	30,256	48,872
Prepaid expenses	742	752
Inventories (note 3)	40,341	33,026
	75,561	83,890
Deferred charges	418	650
Property, plant and equipment (note 4)	119,838	111,337
Intangibles (note 5)	13,853	-
	$ 209,670	$ 195,877
Liabilities		
Current		
Bank indebtedness	$ -	$ 20,198
Accounts payable and accrued liabilities	41,464	40,683
Current portion of loans and other payables (note 6)	20,395	5,065
Deferred revenues	3,203	2,239
	65,062	68,185
Long-term		
Deferred revenues	843	1,778
Loans and other payables (note 6)	17,094	10,427
Future tax liabilities (note 7)	3,196	2,902
Employee future benefits (note 8)	9,068	8,345
	30,201	23,452
Shareholder's equity		
Share capital		
(authorised and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	74,407	64,240
	114,407	104,240
	$ 209,670	$ 195,877

Commitments and Guarantees (note 11)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

Max C. Lewis
Chairman, Board of Directors

Approved on behalf of the Audit Committee

Richard Kwan, CA
Vice Chair, Audit Committee

Approved on behalf of Management

Ian E. Bennett
President and Chief Executive Officer

Richard J. Neville FCA
Vice President, Finance and Administration and Chief Financial Officer

Consolidated statement of operations and retained earnings

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

	2006	2005
Revenues	**$ 493,934**	$ 435,857
Cost of goods sold	**392,218**	342,675
Gross profit	**101,716**	93,182
Other operating expenses		
Marketing and Sales	**39,759**	43,265
Administration	**32,334**	26,920
Amortization	**12,499**	9,256
	84,592	79,441
Income from operations	**17,124**	13,741
Net foreign exchange gain	**223**	170
Interest income	**160**	393
Interest expense	**(1,466)**	(1,104)
Net income before income tax	**16,041**	13,200
Income tax expense (note 7)	**(4,874)**	(4,536)
Net income	**11,167**	8,664
Retained earnings, beginning of year	**64,240**	56,576
Dividend paid	**(1,000)**	(1,000)
Retained earnings, end of year	**$ 74,407**	$ 64,240

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

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

	2006	2005
Cash flows from operating activities		
Cash receipts from customers	**$ 512,579**	$ 418,044
Cash paid to suppliers and employees	**(468,919)**	(423,415)
Interest received	**160**	457
Interest paid	**(1,819)**	(1,504)
Income taxes paid	**(5,318)**	(4,155)
	36,683	(10,573)
Cash flows from investing activities		
Maturities of short-term investments	**-**	9,524
Purchase of property, plant and equipment	**(19,853)**	(34,344)
Purchase of intangibles	**(15,000)**	-
	(34,853)	(24,820)
Cash flows from financing activities		
Dividend	**(1,000)**	(1,000)
Issuance of loans and other payables	**26,450**	-
Repayment of loans and other payables	**(4,100)**	(4,100)
	21,350	(5,100)
Net increase (decrease) in cash and cash equivalents	**23,180**	(40,493)
Cash and cash equivalents at the beginning of year	**(18,958)**	21,535
Cash and cash equivalents at the end of year	**$ 4,222**	$ (18,958)
Represented by:		
Cash	**$ 4,222**	$ 1,240
Bank indebtedness	**-**	(20,198)

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

December 31, 2006

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 the world.

In 2002, the Mint incorporated RCMH-MRCF Inc., a wholly-owned subsidiary, to hold the Mint's interest (50%) in TGM Speciality 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.

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) Cash and cash equivalents

Cash includes cash equivalents, that are investments that are held to maturity and have terms to maturity of three months or less at the time of acquisition. Cash equivalents consist primarily of commercial paper. Cash and cash equivalents are carried at cost, which approximates their fair value.

c) 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 their fair value.

d) 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 realizable value, cost being determined by the average cost method.

e) 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%

Amounts included in uncompleted capital projects are transferred to the appropriate property, plant and equipment classification upon completion, and are then amortized.

f) Intangible assets

Intangible assets consist solely of rights to use certain trademarks and logos associated with a particular contract. Intangible assets are recorded at cost and amortized on a straight-line basis over the term of the respective contract of approximately 6.5 years.

g) Revenues

Revenues from the sale of products are recognized when the rights and obligations of ownership have passed to the buyer. Revenues from refinery and other services are recognized as such services are rendered.

h) Deferred revenues

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

i) Deferred charges

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

j) Employee future benefits

i) Pension benefits

Employees participate in the Public Service Pension 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. The Corporation's contributions are expensed during the year in which the services are rendered. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

ii) Other benefits

Employees are entitled to a severance benefit plan. There is also a supplementary retirement benefit plan including post retirement benefits for certain employees as well as post-employment benefits for employees in receipt of long-term disability benefits. The benefits are accrued as the employees render the services necessary to earn them. The cost of the benefits earned by the employees is actuarially determined using the projected benefit method prorated 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 average remaining service period of active employees. The average remaining service period of the active employees covered by the severance and supplementary retirement benefit plans is 12 years and 8 years respectively (2005 – 12 years; 11 years). For the post employment benefits for employees on long-term disability, the average term of the liability is 5 years.

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 excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average expected period over which the benefits will be paid. The average expected period over which the benefits will be paid is 9 years. The benefit entitlements are based upon relevant Provincial legislations in effect on that date.

A full actuarial evaluation was conducted in December 2006 for all plans. As a result, the accounting valuation has been updated as at December 31, 2006. The next full actuarial evaluation is scheduled for December 2009.

k) 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. 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.

l) 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.

m) Derivative financial instruments

The Corporation uses derivative financial instruments such as forward contracts to hedge the adverse movements in foreign exchange related to purchases and sales denominated in foreign currencies, including anticipated transactions, as well as to manage its cash balances and requirements. The Corporation's policy is not to utilize freestanding derivative financial instruments for trading or speculative purposes.

All designated hedges are formally documented as to the Corporation's risk objective and strategy, the specific item being hedged, and the method in which effectiveness is measured. The settlement method of accounting is used by the Corporation to account for its hedges.

Under the settlement method, gains and losses on hedges are deferred and recognized in the period of settlement as a component of the related transaction. In order to determine the effectiveness at offsetting changes in cash flow of the hedged item, the Corporation assesses both at inception and over the term of the hedging relationship, whether the critical terms of the hedge and hedged item match or the cumulative change in fair value of the hedge and hedged item remain within an acceptable range of 80 to 125 percent. If a hedge ceases to be effective or is terminated, hedge accounting is discontinued. The accumulated gains and losses continue to be deferred and recognized in the Consolidated Statement of Operations and Retained Earnings in the period of settlement of the related transaction; future gains or losses are recognized in the Consolidated Statement of Retained Earnings in the period they occur.

When derivative financial instruments that are held by the Corporation do not qualify as hedges or are not designated, they are carried at fair value on the Consolidated Balance Sheet, and any changes in the fair value are charged or credited to the Consolidated Statement of Operations and Retained Earnings.

n) 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 revenue 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.

o) Future accounting changes.

In January 2005 the Canadian Institute of Chartered Accountants (CICA) issued the following three accounting standards that will impact the Corporation:

Section 3855 - Financial Instruments — Recognition and Measurement — This standard establishes criteria for the recognition, derecognition, measurement and classification of financial instruments. The Corporation will be required to categorize its financial assets as held for trading, held to maturity, available for sale, or as loans and receivables. The Corporation will also be required to categorize its financial liabilities as held for trading or other liabilities. The related accounting treatment will be dependent on the classification. Financial assets and liabilities categorized as held for trading or available for sale are to be measured at fair value while financial assets and liabilities held to maturity, loans and receivables, and other liabilities are to be measured at amortized cost.

Section 1530 - Comprehensive Income — This standard requires certain gains and losses such as those arising from the change in the fair value of cash flow hedges or assets classified as available for sale; that would otherwise be recorded as part of net income, to be presented in other comprehensive income until such time as it is considered appropriate for them to be recognized in net income. A new financial statement entitled Comprehensive Income may be required in order to record such amounts until they are realized.

Section 3865 - Hedges – This standard establishes when and how hedge accounting can be applied. Derivatives will be classified as held for trading unless designated as hedging instruments. All derivatives will be measured at fair value. For derivatives that hedge the changes in the fair value of an asset or liability, changes in the derivatives' fair value will be reported in the net income and offset by changes in the fair value of the hedged asset or liability. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognised in other comprehensive income, and will subsequently be reclassified to net income in the periods affected by the variability in the cash flows of the hedged item.

These new standards will come into effect for the Corporation's next fiscal year. The Corporation is in the process of determining the impact that these standards will have on its financial reporting.

3. Inventories

(in thousands of dollars)

	2006	2005
Raw materials and supplies	**$ 16,640**	$ 13,000
Work in process	**16,645**	14,543
Finished goods	**7,056**	5,483
	$ 40,341	$ 33,026

4. Property, plant and equipment

(in thousands of dollars)

			2006	2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 3,226	$ -	**$ 3,226**	$ 3,226
Land improvements	914	795	**119**	133
Buildings	82,335	30,979	**51,356**	52,324
Equipment	123,244	71,110	**52,134**	44,317
Hardware and software	18,241	13,613	**4,628**	5,025
Uncompleted capital projects	8,375	-	**8,375**	6,312
	$ 236,335	$ 116,497	**$ 119,838**	$ 111,337

5. Intangibles

(in thousands of dollars)

			2006	2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Intangibles	$ 15,000	$ 1,147	**$ 13,853**	$ -

In 2006, the amortization expense relating to the intangible was $1.1 million (2005 – nil).

6. Loans and other payables

(in thousands of dollars)

	2006	2005
10-year loan due December 2007, bearing interest at 5.840% calculated semi-annually with the principal repayable in ten equal annual instalments of $1.0 million commencing December 1998	**$ 1,000**	$ 2,000
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 instalments of $3.1 million commencing December 2000	**9,300**	12,400
Short-term money market loan maturing January 2, 2007, bearing interest at 4.50%. Both principal repayment and interest due at maturity.	**12,700**	-
Non-interest bearing long term payable, maturing in March 2010 with principal payments of $4.1 million due in 2007, $2.9 million due in 2008, $3.1 million due in 2009 and $3.7 million due in 2010	**13,750**	-
Accrued interest on long-term debt	**739**	1,092
	37,489	15,492
Less the current portion of long-term debt	**20,395**	5,065
	$ 17,094	$ 10,427

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)

	2006	2005
Income tax expense	**$ 4,580**	$ 4,156
Future tax expense	**294**	380
	$ 4,874	$ 4,536

Income tax expense on net income before income tax differs from the amount that would be computed by applying the Federal statutory income tax rate of 32.52% (2005 – 32.52%). The reasons for the differences are as follows:

	2006	2005
Computed tax expense	**$ 5,217**	$ 4,448
Change in enacted rates	**(415)**	-
Over accrual in the prior period	**(44)**	-
Other net amounts	**116**	88
	$ 4,874	$ 4,536

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities in 2006 and 2005 are presented below:

	2006	2005
Future tax assets:		
Employee future benefits	**$ 2,621**	$ 2,424
Inventories	**402**	402
	3,023	2,826
Future tax liability		
Capital assets	**(6,107)**	(5,728)
Investment tax credits	**(112)**	-
	(6,219)	(5,728)
Future tax liabilities	**$ (3,196)**	$ (2,902)

8. Employee future benefits

i) Pension benefits

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's contributions to the Public Service Pension Plan for the year were as follows: $5.5 million (2005 - $4.4 million).

ii) Other benefits

The Corporation provides severance benefits to its employees based on their years of service and final salary. The Corporation also provides workers' compensation benefits along with post-employment benefits for employees in receipt of long-term disability benefits. It also offers to certain employees a supplementary retirement benefits plan which provides benefits based on average earnings at retirement. These benefits plans are not pre-funded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation. Future benefits will be paid out of future revenues earned by the Corporation.

Information about these benefits plans at the balance sheet date is as follows:

Defined Benefit Plan Obligation

(in thousands of dollars)

	2006	2005
Accrued benefit obligation		
Balance at beginning of year	$ 9,757	$ 8,433
Current service cost	938	1,166
Interest cost	484	473
Benefits paid	(415)	(430)
Actuarial losses	9	115
Balance at end of year	$ 10,773	$ 9,757
Accrued benefit obligation at end of the year	$ 10,773	$ 9,757
Unamortized net actuarial losses	(996)	(1,108)
Accrued benefit liability at end of year	$ 9,777	$ 8,649
Short term portion (accounts payable and accrued liabilities)	$ 709	$ 304
Long term portion (employee future benefits)	$ 9,068	$ 8,345

Significant Assumptions (weighted average)

	2006	2005
Accrued benefit obligation as of December 31:		
Discount rate	5.0%	4.8%
Rate of compensation increase	4.3%	4.3%
Benefit costs for year ended December 31:		
Discount rate	5.0%	5.0%
Rate of compensation increase	4.4%	4.4%
Assumed health care cost trend rates at December 31:		
Initial health care cost trend rate	6.5%	6.0%
Cost trend rate declines to	6.5%	6.0%
Year that the rate reaches the rate it is assumed to remain at	2007	2006

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, management and delivery of Canadian circulation coins are negotiated under a three year Memorandum of Understanding, where pricing is agreed annually in the normal course of operations.

10. Financial Instruments

i) Foreign exchange contracts

In order to minimize or eliminate the speculative aspects of unprotected foreign exchange transactions associated with purchases and sales denominated in foreign currencies, the Corporation manages its exposure to currency rate risk through the use of foreign exchange contracts. The Corporation also uses such contracts in the process of managing its overall cash requirements. These contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The primary risk to the Corporation when entering into foreign exchange contracts is represented by credit risk, wherein the counterparty fails to perform an obligation as agreed upon causing a financial loss. The Corporation manages its exposure to credit risk by contracting only with credit-worthy counterparties who are rated AA or better by Moody's or Standard and Poors. All of the Corporation's foreign exchange contracts are with major Canadian financial institutions.

Foreign exchange forward contracts with a notional amount of $39.9 million were outstanding at the end of the year (2005 - $45.0 million) of which $5.6 million (2005 – none) were not designated as hedges.

Fair value estimates for derivative contracts are based on quoted forward market prices at December 31, 2006. As at December 31, 2006, the fair value of the foreign exchange contracts is an asset of $0.6 million (2005 – asset of $0.1 million) of which an asset of $0.4 million (2005 – none) relates to contracts which were not designated as hedges. The fair value of the contracts not designated are included in accounts receivable.

The anticipated hedged transactions are expected to be fully executed by September 30, 2008.

ii) Other financial instruments

The other financial instruments, which potentially subject the Corporation to a concentration of credit risk, consist principally of cash and cash equivalents and trade receivables. The Corporation invests its excess cash primarily in commercial paper with corporate entities rated R-1 low or better by the Dominion Bond Rating Service or banking entities rated AA or better by Moody's or Standard and Poors. The Corporation also mitigates potential receivables credit risk through credit evaluation and proper approval processes. Any anticipated bad debt loss has been recognized in the consolidated financial statements.

The carrying amounts for cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate fair market value due to the short term nature of these instruments.

The fair value of the loans and other payables is $11.0 million (2005 - $15.5 million). This estimation is based on a discounted cash flow approach using current market rates.

11. Commitments and guarantees

i) Base metal commitments and precious metal lease

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Corporation enters into firm fixed price purchase commitments, as well as precious metals leases. As at December 31, 2006, the Corporation had $14.6 million (2005 - $10.9 million) in purchase commitments outstanding. These commitments are to be completed by September 30, 2008. In addition, at the end of the year, the Corporation had entered into precious metal leases for 105,119 ounces of gold; 1,386,406 ounces of silver; and 18,789 ounces of palladium (2005 – 113,954 ounces of gold; 1,704,740 ounces of silver; and 65,030 ounces of platinum). The fees for these leases are based on market value. The value of the metals under both of these contractual arrangements have not been reflected in the Corporation's consolidated financial statements since the Corporation intends to settle these commitments through receipt or delivery of the underlying metal.

The Corporation also entered into a firm fixed price sale contract for base metal in 2006, which was outstanding at year-end in the amount of $18.2 million (2005 – $0.5 million). The contract will be fully executed by December 31, 2007. This commitment has not been reflected in the consolidated financial statements.

ii) Bid bonds and performance guarantees

The Corporation has outstanding various guarantees and bid bonds associated with the production of foreign circulation coin contracts. These were issued in the normal course of business. The guarantees and bid bonds are delivered under standby facilities available to the Corporation through various financial institutions. Performance guarantees generally have a term up to one year depending on the applicable contract, while warranty guarantees can last up to five years. Bid bonds generally have a term of less than three months, depending on the length of the bid period for the applicable contract. The various contracts to which these guarantees or bid bonds apply generally have terms ranging from one to two years. Any potential payments which might become due under these commitments would relate to the Corporation's non-performance under the applicable contract. The Corporation does not anticipate any material payments will be required in the future. As of December 31, 2006, under the guarantees and bid bonds, the maximum potential amount of future payments is $32.6 million (2005 - $11.3 million).

iii) Other commitments and guarantees

In 2005, the Corporation entered into a sales agreement, which contained a counter purchase requirement. As of December 31, 2006, the purchase commitment totals $0.1 million (2005 - $5.3 million). This purchase commitment is not reflected in the Corporation's financial statements.

The Corporation 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 Corporation and outstanding at any time shall not exceed $75 million. For the year ending December 31, 2006, approved short-term borrowings for working capital within this limit, were not to exceed $25.0 million (2005 - $25.0 million).

To support such short-term borrowings as may be required from time to time, the Corporation has various commercial borrowing lines of credit, made available to it by Canadian financial institutions. These lines are unsecured and provide for borrowings up to 364 days in term based on negotiated rates.

12. Non-monetary transaction

In December 2003, the Mint signed a contract where it exchanged certain inventory for service credits. These credits will be applied against services to be provided to the Corporation including advertising, marketing studies and printing. These credits are recognized as they are used by the Corporation. In 2006, no credits were utilized (2005 - $0.3 million). As a result, the balance of the credits outstanding at year end is $1.0 million (2005 - $1.0 million).

In 2006, the Mint signed an agreement which included an exchange of $2.0 million for goods and services as partial payment for its intangible. The payment will be recognized as the goods and services are delivered. In 2006, no goods and services have been provided in respect of this agreement. As a result, the balance of goods and services still to be delivered remains at $2.0 million at year end.

13. Interest in joint venture

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

(in thousands of dollars)

	2006	2005
Assets		
Current assets	$ 1,067	$ 1,205
Long-term assets	217	240
Liabilities		
Current liabilities	188	392
Long-term liabilities	35	47

	2006	2005
Earnings		
Sales	$ 2,128	$ 2,079
Expenses	2,063	1,936
Net earnings	65	110
Cash flow		
Operating activities	291	265
Investing activities	(11)	(26)
Financing activities	(12)	11

65% of the joint venture's total sales for the year ended December 31, 2006 were to the Royal Canadian Mint (2005 - 76%). The Royal Canadian Mint's consolidated financial statements reflect only those sales and related expenses, which were sold to unrelated third parties.

14. Comparative figures

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