1999 Annual Report

The World in our Pocket

Royal Canadian Mint

Monnaie royale canadienne

Management's discussion and analysis

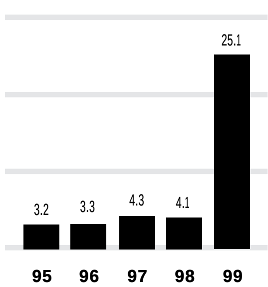
Consolidated results of operations

In 1999, the Royal Canadian Mint achieved the second highest earnings in its 91-year history with net income rising to $21.7 million, an increase of 388% over the $4.5 million earned in 1998. The year was marked by sales of new products that significantly exceeded expectations; steady sales of the Mint's traditional products; and significant improvements in productivity throughout the Mint's facilities:

- The broad popularity of the Millennium numismatic products generated revenues of $36.0 million.
- Year 2000 uncertainties and a decline in the price of gold during the year pushed sales of Gold bullion products to 758,300 ounces in 1999, compared to 680,200 ounces in 1998. Revenues rose to $330.0 million, $20.0 million more than in 1998.
- Silver Maple Leaf coin sales reached 1.23 million ounces, bringing in revenues of $11.9 million ($6.4 million – 1998).
- Demand for Canadian circulation coins pushed production to 1.7 billion coins, the Mint's second highest annual production level, including 266.4 million 25-cent pieces and 25.1 million Millennium $2 coins.

At the same time, the Mint's continuous improvement and new quality systems initiatives continued to improve productivity in both the Winnipeg and Ottawa plants. At year end, with the near-completion of the plating facility, the Mint's total assets rose to $180.6 million, an increase of 13.5% from $159.1 million a year earlier.

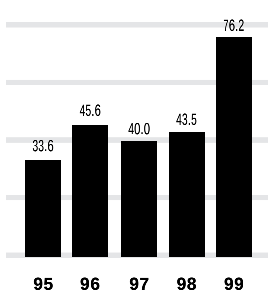
Canadian numismatic coins sold (millions of pieces)



Revenue

Total revenue for 1999 was $584.4 million, a 14.3% increase over 1998 revenue of $511.3 million. Of this increase, more than 50% can be attributed to new products, the most significant being the Millennium numismatic products. Bullion and Canadian circulation revenues also contributed significantly to the increase.

Canadian numismatic revenues ($ in millions)



Canadian numismatic coins: Revenue from Canadian numismatic coins increased to $76.2 million in 1999, an increase of 75.2% from $43.5 million in revenue in 1998. The most important driver behind these increases was the demand for the Millennium numismatic products. By the end of 1999, issues of 1,445,150 souvenir sets, 113,645 silver commemorative single coins, 58,246 proof silver sets and 6,694 Millennium Dragon proof sets had been achieved. Issues of the Millennium gold $2 coin, which was launched in June, were 4,088 and issues of the Millennium proof $2 coin, launched in July, totaled 39,638. Revenue from the Millennium products generated 54% of the contribution from all Canadian numismatic coins. Coins minted to commemorate the Year of the Rabbit in the Chinese lunar calendar generated another $4.6 million in revenue. Revenue from core numismatic products were consistent with those in 1998.

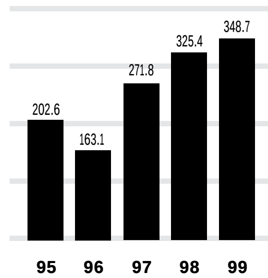
In August 1999, the Mint further advanced the technological expertise that it can use in the development of numismatic coins with the release of its first hologram coins, a limited edition set of Gold Maple Leaf numismatic coins, at the World's Fair of Money in Chicago. Holograms and other fine design features were also used for the first time in 1999 to make the Mint's bullion products more competitive.

Bullion: Revenue from bullion products rose to $348.7 million in 1999, a 7.2% increase from $325.4 million in 1998. Gold bullion products, including Canada's Gold Maple Leaf (GML), are a traditional hedge against economic and financial turmoil. At the same time, investors interested in precious metals as an investment purchased the coins as the price of gold began to decline during the summer, believing it to be a buying opportunity. Sales of the more affordable, higher margin, 1/10-ounce coin more than tripled from 1998 to reach 709,920 coins. The Mint also sold 1.2 million Silver Maple Leaf coins (0.6 million – 1998).

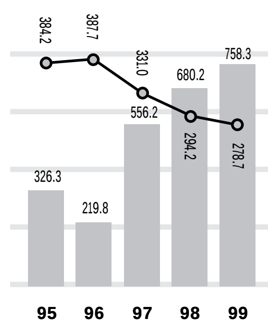
Demand for bullion in the United States was particularly strong, causing sales in the U.S. to increase to 76% of total bullion sales in 1999, up from 62% in 1998.

Canadian circulation coins: The Mint produces circulation coins under contract to the Canadian government to meet the demands of the Canadian public. As a result of demand for the Millennium circulation coins, revenue from the production of Canadian circulation coins were $78.4 million compared to $44.4 million in 1998. In 1999, the Mint established a broader relationship with Canada Post to distribute the circulation Millennium coins throughout over 7,000 postal outlets. (Canada Post has traditionally distributed only the Mint's numismatic products.) This significantly expanded the breadth of distribution across the country, ensuring most Canadians had access to these special coins.

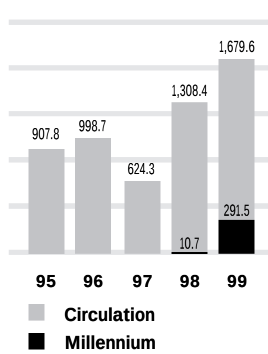
Bullion product revenue
($ in millions)



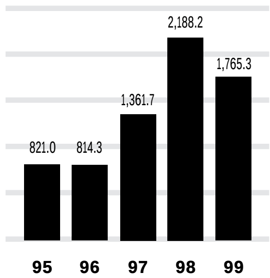
Sales of gold bullion products (thousands of ounces)
Average price of gold (USD per ounce)



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



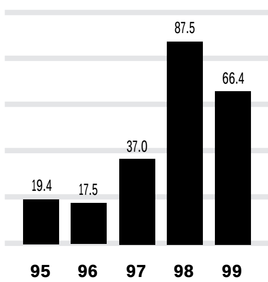
Foreign circulation coins sold (millions of pieces)



Foreign circulation coins: The Mint produced coins for 18 countries in 1999, with total shipments reaching 1.8 billion pieces, generating $66.4 million in revenue ($87.5 million – 1998). The most significant contracts were with Hong Kong, Ghana, and the Philippines. The change in revenue reflects the highly competitive nature of the foreign coin marketplace, however, improved service and flexibility along with continuous improvement initiatives caused contributions from foreign circulation coins to increase in 1999.

Foreign numismatic coins: Sales of foreign numismatic coins in 1999 were dominated by an agreement to produce, market and distribute coins to commemorate the December 20, 1999 handover of Macau to China. The Mint produced a .99999 gold coin, a sterling-silver coin and a five-coin uncirculated set. Total sales of foreign numismatic coins generated $6.9 million in revenue ($6.2 million – 1998).

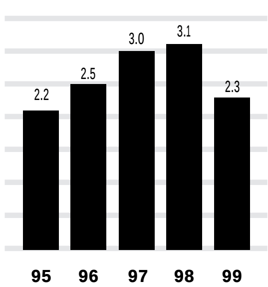
Foreign circulation revenue ($ in millions)



The Macau contract is an example of the Mint’s new approach to developing its foreign numismatic business. The Mint proposed, designed, produced, and used its marketing and sales channels to sell the coins for Macau. In the past, the Mint has simply produced the coins for the customers, who were in turn responsible for marketing and selling them to the public. The ability of the Mint to market and distribute the coins directly to the public is expected to have a significant impact on future growth in sales.

Refining services: The Mint refines gold received from a variety of sources and has earned an international reputation for integrity, purity and security. Revenue from these activities declined in 1999 to $2.7 million from $3.0 million in 1998, reflecting the depressed conditions in the gold mining industry and intense competition by refineries for gold brought to market. The refining operation also supports the manufacturing of the Mint’s bullion coins, jewellery and numismatic coins that contain precious metal.

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

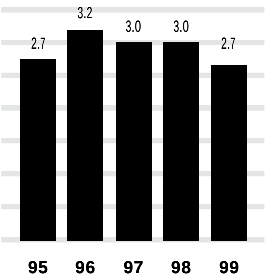


Under its continuous improvement program, the Mint refined its process to produce .99999 gold, the world’s finest gold. At the same time, cycle time and production costs were reduced while yields were increased. The refinery also improved throughput capacity in its casting operation with a set up of twin furnaces. The increase in capacity prepares the Mint to meet improved demand in the future. Refining services also provided consulting services, through the Canadian International Development Agency, to Guyana and Surinam. In return, the Mint secured a 10-year refining contract.

Other

The Mint produces a wide variety of tokens, medals, trade dollars and jewellery. Revenue from these products rose to $5.3 million in 1999 ($2.0 million – 1998). This increase was driven primarily by the launch of a new line of PURE 9999 jewellery products during the year, backed by an aggressive marketing campaign. The Mint saw a 42% increase in the number of retail points of sale for its jewellery throughout Canada this year. Retail accounts are the main source of revenue for this division and the Mint is expanding this channel in the U.S.

Refining services revenue ($ in millions)



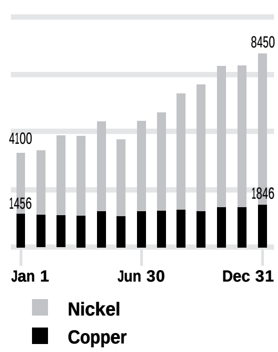
The Mint and e-business

During the year, a redesign transformed the Mint's Internet site from an information vehicle into a component of the marketing and sales program. The site, which offered only a few products for sale in 1997 and 1998, was also expanded to sell all of the Mint's numismatic products. As a result, the number of orders received during 1999 increased to 2,785 from 325 in 1998 while total revenue from the site increased to $305,358 from $32,428. The Internet has proven to be an effective channel for reaching individuals who might not otherwise purchase products from the Mint. During 1999, 72% of the orders submitted through the site were from new customers.

Operating costs

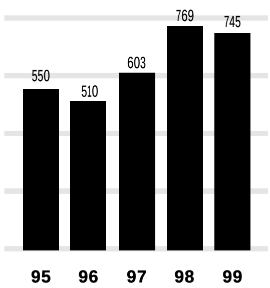
Operating costs – including cost of goods sold and the costs of marketing and sales, administration and depreciation – were $561.2 million, an increase of 11.0% over costs of $505.5 million in 1998. Cost of goods sold, which represents 88% of total operating costs, increased 9.6% over 1998 to $493.2 million ($450.2 million – 1998), primarily because of the increased volume of metals required to meet higher production levels. Gold prices fluctuated significantly over the year but the average price for gold in 1999 was $279USD per ounce, a 5% drop from the average price of $294USD in 1998. The price of the two primary base metals purchased by the Mint – nickel and copper – increased significantly throughout the year. The average price of nickel more than doubled in 1999 over 1998. The average price of copper rose by 25%.

Prices of nickel and copper in 1999 Monthly averages
(USD per metric ton)



Employment at the Mint varied throughout the year in keeping with production demand, with wages and benefits increasing to $39.3 million ($34.6 million – 1998). By the end of the year, employment was at 745 persons (769 – December 31, 1998), including both permanent and temporary employees.

Number of employees
(at December 31)



In the course of the year, the Mint invested over $1.1 million in the development of its employees by enhancing its leadership capacity (through coaching training), quality system expertise (ISO training) and overall proficiency in computer skills. The successes achieved in 1999 reflect a common denominator – the innovation, commitment and confidence of our people. The Mint's dedication to encouraging these values and attributes is backed by a commitment to spend 4% of payroll on skills development in 2000.

The impact of these increased costs was mitigated by several initiatives to improve productivity and effectiveness.

Under the continuous improvement process, the Ottawa plant launched the Pactol Project to examine the process to produce 1/10-ounce gold bullion blanks. Refinements to the process improved the yield of acceptable blanks and reduced the rate of rejected coins to 6% from 18% without any compromise in quality. The improved yield gave the plant the ability to respond to the unexpectedly high demand in March 1999 for Gold Maple Leaf coins.

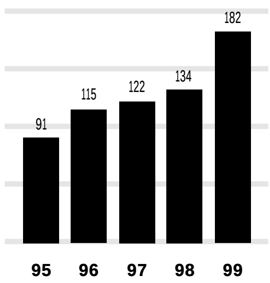
The continuous improvement process, begun in 1995, has significantly improved manufacturing performance at the Mint. One improvement involved developing a die recycling process for stripping, inspecting, reworking and re-plating dies. As a result, the cycle time for die production was reduced by 33% and the time required to produce trial dies for new products was reduced from two weeks to three days. This allows the plant to spend more time in pre-production, reducing the launch time required for new products, a capability that was proven during the production of the Macau coins.

In 1999, the Mint's plants implemented a more comprehensive preventative maintenance program. As part of this program, 18 presses in Winnipeg were rebuilt or refurbished. At the same time, a special thermographic camera that can detect hot spots in the equipment is now being used to prevent potential electrical or switch failures. As a result, by the end of 1999 the amount of downtime caused by equipment failure had been significantly reduced.

Management's discussion and analysis

Through investments in equipment and changes in the manufacturing processes, the Mint has been able to increase the throughput per shift, reduce reject rates, improve die shop performance, and decrease cycle times – the time required to produce a coin from casting to packaging.

Value-added sales per employee ($ in thousands)



Occupational health, safety and the environment

In 1999 the Mint integrated the two departments that were responsible for occupational health, safety and the environment to better coordinate their efforts. Improvements made during the year in the Occupational Safety and Health (OSH) program and the Environmental Management System (EMS) have contributed to a safer and healthier environment. Although the number of accidents increased during the year along with higher production and employment levels, the severity rate of accidents per 100 employees decreased to 41.5 in 1999 from 46.1 in 1998.

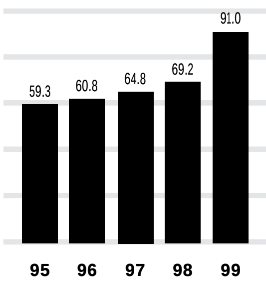
Marketing and Sales

The Mint has been expanding advertising for all its business activities over the past five years, gradually increasing spending to $16.3 million in 1999 from $7.6 million in 1995. An aggressive print and broadcast advertising campaign was launched on multiple fronts with targeted communications aimed at seasoned collectors, gift-givers and the general public. The results of these efforts were impressive; sales revenue of $584.4 million ($511.3 million - 1998). Awareness of the Mint increased from 59% to 64% and five direct marketing campaigns generated 320,000 calls to the Mint's customer service call center as compared to an average of 150,000 calls in previous years. These calls translated into a 25% increase in the revenue generated through direct marketing. This increase in calls in 1999 was managed with a minimal increase in staff.

Marketing and sales costs, including advertising, increased by 21.6% to $40.4 million from $33.2 million in 1998. Initiatives to penetrate new markets and identify new, alternative sales channels to expand our market beyond that reached by our traditional sales channels were highly successful.

New retail distribution networks were established during the year, including kiosks in major shopping malls and relationships with major retailers, including two prominent national retailers, Home Hardware and 7-Eleven. Finally, a key marketing and sales achievement in 1999 was the successful adaptation of existing numismatic products and advertising to penetrate the Chinese Canadian market. A special limited edition Millennium Commemorative set was sold out and a dragon medallion featured in the set was used to create a Year of the Dragon watch.

Shareholder's equity
($ in millions)



Administrative costs

Administrative costs increased to $22.8 million from $18.0 million, primarily because of a number of major initiatives such as ISO certification, continuous improvement training, the launch of an Enterprise Resource Planning (ERP) system and significant efforts made to resolve technology issues related to the Year 2000. Administrative costs as a percentage of revenue, excluding Year 2000 costs, remained relatively stable at 3.6% (3.5% – 1998). The Mint's transition to the Year 2000 was problem-free as a result of thorough testing efforts and, where necessary, the replacement or upgrade of systems and equipment. A side benefit of this major project was the updating of several key business and operating systems and, in some cases, the replacement of outdated equipment with state of the art facilities.

Growth in operating results

The 388% increase in net income in 1999 over 1998 was a result of the growth in operating income. Income from operations rose to $23.1 million compared with $5.8 million in 1998, an increase driven by the improved gross profit of 15.6% (11.9% – 1998) and strong revenue growth. Changes in the Mint's operating income reflect not only the increase in revenue and the volume of products sold but also a significant shift in the mix of products sold toward those with higher margins.

Interest income rose to $1.3 million ($1.1 million – 1998). Interest expense, primarily on the debt related to the construction of the plating facility, amounted to $2.4 million for 1999, compared with $2.2 million in 1998. The effective tax rate remained at zero, excluding large corporation taxes, due to the carry-forward of previous losses and differences between the tax and accounting value of assets. Depreciation expense increased to $4.9 million compared to $4.1 million in 1998, the result of a continued growth in capital investment.

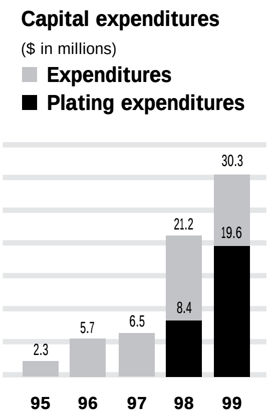
Management's discussion and analysis

Liquidity and capital resources

Cash and short-term investments improved to $16.1 million by the end of the year from $9.8 million at the end of 1998. Strict management over working capital accounts resulted in improved accounts receivable management and faster inventory turnover with corresponding lower inventory levels for most product lines.

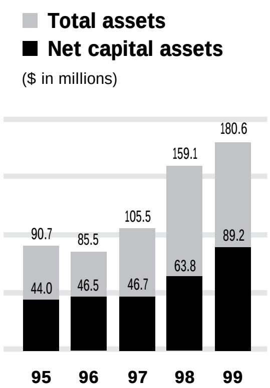
The Mint's strong working capital position made it possible for it to fund operations and capital expenditures, excluding the plating facility, without any borrowing. The Mint's debt-to-equity ratio declined to 0.46:1 at December 31, 1999 from 0.69:1 at the end of 1998.

Capital expenditures: Expenditures on capital equipment, including the plating facility construction, were $30.3 million ($21.2 million – 1998). Priority was given to capital investments that increased the Mint's flexibility, reliability and capability to meet customer demands. The Mint is also implementing a corporate-wide information system that will provide efficient and effective information technology solutions, respond to business requirements and provide for growth and expansion.



Construction of the plating facility, which began in April 1998, was completed at the end of January 2000 at an approximate total capital cost of $30.0 million, three months ahead of schedule and $1 million below budget. The success of this project can be attributed to extensive planning during the years prior to the launch of the project and the seamless teamwork between the Mint's staff and the construction management contractor, UMA. The Mint plans to introduce plated steel coinage to the marketplace in July 2000.

Financing: In 2000, the Mint will begin payment of the plating facility debt on which there has been a two-year deferral of interest and principal repayment. In 1999, the Mint reduced its long-term debt with a scheduled $1 million repayment and repaid $6.2 million of short-term debt. A $5.3 million repayment of principal and interest is scheduled for December 2000. The capital resources of the Mint were further enhanced with an increase in its borrowing limit to $75 million from $50 million as a result of an amendment to the *Royal Canadian Mint Act*.

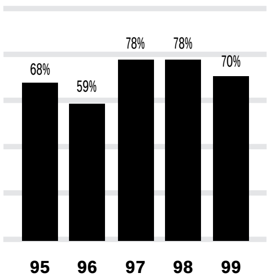


Risks to performance

Precious metal risk: The Mint purchases three precious metals – gold, platinum and silver. These metals are used in the Maple Leaf and numismatic coins as well as jewellery. The Mint is not exposed to risk in a change in price in the metals used for the bullion coins because the purchase and sale of metals used in these coins is done on the same date, using the same price, and in the same currency. For numismatic and jewellery products, risk is mitigated through a precious metal risk management hedging program involving forward contracts and options which ensures that budgeted margins are protected. At the end of 1999, the Mint had one option in place related to a guaranteed value gold coin issue.

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 and copper, for which the market has been very volatile, and tightening, throughout 1999. 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 the contract is awarded reduces the Mint's exposure to metal price fluctuation.

Exports as a percentage of total revenue



Foreign exchange rate risk: A significant 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. At the end of the year, there were no outstanding foreign exchange positions.

Outlook

1999 was an outstanding year for the Mint. The popularity of the Millennium program had a significant impact on performance and created a broader popular interest in coins and coin collecting. At the same time fundamental improvements were made in the Mint's operations and ability to continue to perform well in the future. Improvements in productivity and effectiveness and the completion of the plating facility will create a manufacturing facility that can produce more coins in less time at a lower price while maintaining the Mint's reputation for quality.

Hand-in-hand with these improvements to its operations, the Mint has acquired the expertise that will allow it not only to sell coins, tokens and medals but also its in-depth knowledge and understanding of minting technology.

Winnipeg and Ottawa achieve ISO certification

As part of its vision to be a world class manufacturing operation, the Mint has sought certification from the International Organization for Standardization (ISO) for both the Winnipeg and Ottawa facilities. Winnipeg received ISO 9002 certification in June; Ottawa was recommended for ISO 9001 certification in December. Certification by ISO indicates that the plants meet internationally recognized standards for quality and consistency, which will enhance the Mint's competitiveness when bidding for foreign circulation and numismatic coins. The Royal Canadian Mint is one of only a few mints in the world to have ISO certification.

Productivity improvements and the start-up of the plating facility will make the Mint one of the lowest cost manufacturers of coins in the world, but low cost is only one factor that plays a role in securing international contracts. The ability to deliver the coin that the customer envisions can be just as important.

In 2000, the Mint will continue to concentrate on improving the reliability, flexibility and capability of its facilities. Efforts will be focused on process improvements through a new quality systems approach and continuous improvement opportunities. The implementation of Overall Equipment Effectiveness (OEE) measures will ensure that the Mint's manufacturing efforts will keep pace with the increasingly rigorous expectations of our customers while constantly improving our margins.

These changes are the groundwork that will make it possible for the Mint to take advantage of opportunities created through changes to the *Royal Canadian Mint Act*. Restricted in the past to growth only through expanding market share, the Mint is now able to form partnerships, create subsidiaries and make acquisitions. Such freedom allows the Mint, for example, to own and manage distribution or minting facilities closer to its markets, dramatically reducing the cost of delivery and transportation of product to its customers.

The Mint has the financing and operating capabilities in place to support its growth strategy to become the leading mint in the world.

Management report

The financial statements contained in this annual report have been prepared by Management in accordance with generally accepted accounting principles in Canada 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 are in accordance with the *Financial Administration Act* and regulations as well as the *Royal Canadian Mint Act* and the By-law of the Corporation.

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

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

Danielle V. Wetherup
President and Master of the Mint

Beverley A. Lepine
Vice-President, Administration and Finance

Auditor's report

To the Minister of Public Works and Government Services

I have audited the balance sheet of the Royal Canadian Mint as at December 31, 1999 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with 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 that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Royal Canadian Mint Act* and the By-law of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada
Ottawa, Canada, February 18, 2000

Balance sheet

as at December 31, 1999 (in thousands of dollars)

	1999	1998
Assets		
Current		
Cash and short-term investments (note 8)	$ 16,109	$ 9,813
Accounts receivable	35,834	30,237
Prepaid expenses	2,042	1,740
Inventories (note 3)	37,419	53,452
	91,404	95,242
Capital assets (note 4)	89,204	63,829
	$ 180,608	$ 159,071
Liabilities		
Current		
Accounts payable	$ 33,208	$ 30,861
Short-term debt	–	6,200
Current portion of loans (note 5)	5,302	1,000
Deferred revenues	5,728	2,723
	44,238	40,784
Long-term		
Deferred revenues	2,188	2,695
Loans (note 5)	36,676	40,302
Provision for employee termination benefits	6,529	6,047
	45,393	49,044
Shareholder's equity		
Share capital		
(authorized and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	50,977	29,243
	90,977	69,243
	$ 180,608	$ 159,071

The accompanying notes are an integral part of these statements

Approved by Management

Danielle V. Wetherup
President and Master
of the Mint

Beverley A. Lepine
Vice-President,
Administration and Finance

Approved on behalf of the Board of Directors

Emmanuel Triassi
Chairperson

Recommended for approval on behalf of the Audit Committee

Charles F.M. Ross, H.B.A., L.L.B.
Chair

Statement of operations and retained earnings

for the year ended December 31, 1999 (in thousands of dollars)

		1999		1998
Revenues	$	584,372	$	511,267
Cost of goods sold		493,158		450,172
Gross profit		91,214		61,095
Other operating expenses				
Marketing and Sales		40,350		33,181
Administration		22,788		18,043
Depreciation		4,943		4,067
		68,081		55,291
Income from operations		23,133		5,804
Interest income		1,292		1,115
Interest expense		(2,382)		(2,216)
Income before income tax		22,043		4,703
Income tax (note 6)		309		252
Net income		21,734		4,451
Retained earnings, beginning of year		29,243		24,792
Retained earnings, end of year	$	50,977	$	29,243

The accompanying notes are an integral part of these statements

Cash flow statement

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998
Cash flows from operating activities		
Cash receipts from customers	$ 580,946	$ 504,779
Cash paid to suppliers and employees	(537,725)	(505,762)
Interest received	1,619	775
Interest paid	(706)	(914)
Income taxes paid	(320)	(241)
	43,814	(1,363)
Cash flows from investing activities		
Purchase of capital assets	(30,318)	(21,234)
Cash flows from financing activities		
Repayment of loans	(7,200)	(1,022)
Proceeds from loans	–	37,200
	(7,200)	36,178
Net increase in cash and short-term investments	6,296	13,581
Cash and short-term investments at the beginning of year	9,813	(3,768)
Cash and short-term investments at the end of year	$ 16,109	$ 9,813

The accompanying notes are an integral part of these statements

Notes to financial statements

December 31, 1999

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 supporting distribution systems 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.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and the terms and conditions. Since March 1999, following the enactment of changes to the *Royal Canadian Mint Act,* the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $75 million, an increase from the previous $50 million.

2. Significant accounting policies

a) 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.

b) Capital assets

Capital assets are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 1/2%
Buildings	2 1/2%
Equipment	10%
Hardware and software	20%

c) Deferred revenues

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

d) Employee termination benefits

Employees are entitled to specific termination benefits as provided under their collective agreement and terms of employment. The liability for these benefits is charged to income as benefits accrue to the employees.

e) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the Plan were limited to an amount equal to the employees' contributions on account of current services. Effective April 1, 2000 the Corporation's contributions will increase to an amount reflecting the full cost of the employer contributions. This amount, expressed as a percentage of employee contributions, will fluctuate from year to year depending on the experience of the Plan. The Corporation's contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

f) Foreign currency translation

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. Translation gains and losses are included in income for the year.

December 31, 1999

3. Inventories

(in thousands of dollars)

	1999	1998
Raw materials	$ 9,973	$ 27,012
Work in process	9,477	11,788
Finished goods	13,889	10,903
Supplies	4,080	3,749
	$ 37,419	$ 53,452

4. Capital assets

(in thousands of dollars)

	1999			1998
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 3,226	$ -	$ 3,226	$ 3,226
Land improvements	914	697	217	231
Buildings	67,709	18,855	48,854	38,939
Equipment	70,412	36,012	34,400	19,070
Hardware and software	7,552	5,045	2,507	2,363
	$ 149,813	$ 60,609	$ 89,204	$ 63,829

5. Loans

(in thousands of dollars)

	1999	1998
10 year loan due December 2007, semi-annual interest at 5.840% with principal repayable in ten equal annual installments commencing December 1998	$ 8,000	$ 9,000
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 annual installments commencing December 2000	31,000	31,000
Accrued interest on bond	2,978	1,302
	41,978	41,302
Less current portion of loans	5,302	1,000
	$ 36,676	$ 40,302

December 31, 1999

6. Income tax

The Corporation's 1999 income tax relates solely to the large corporations tax. The Corporation's expected income tax rate is the net federal statutory rate (including surtax) of 39.12% less the manufacturing and processing deduction of 7.0%. The 1999 and 1998 effective tax rates are zero, exclusive of the large corporations taxes, due to the utilization of previously unrecognized losses and the utilization of differences between the tax and accounting values of assets at the date the Corporation became subject to income tax. The Corporation has differences between the tax and accounting values of the assets during the year in the amount of approximately $0.1 million (1998- $22.4 million) the benefit of which have not been recognized in the accounts. The Corporation is not subject to provincial income taxes.

7. Related party transactions

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

8. Financial instruments

The Corporation uses financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and metal prices. Precious metal options worth $5 million (1998 - $10 million) were outstanding at the end of the year to offset the exposure in options issued by the Corporation for guaranteed value coins. These options expired in January 2000. There were no foreign exchange forward contracts outstanding at the end of the year (1998 - $10 million). Gains or losses on these financial instruments are recognized in earnings over the period when the hedged items are recognized in earnings. In accordance with the Corporation's investment policy, all counterparties for investments and other financial instruments are rated R-1 low or better by the Dominion Bond Rating Service or AA or better by Moody's Investors Service. As at December 31, 1999 the Mint had invested $14,683,000 in short-term investments (1998 - $14,402,000). The carrying amounts of each investment approximate fair values because of their short-term maturity.

9. Commitments

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Mint leases, on an ongoing basis, precious metals and pays lease charges based on market value. The metal under these contractual arrangements is not reflected in the Mint's statements. As at December 31, 1999, 207,889 ounces of gold, 1,165,919 ounces of silver and 1,730 ounces of platinum were leased under these contracts (1998 - 148,588 ounces of gold, 1,190,684 ounces of silver and 7,590 ounces of platinum).

Statistics - Table 1

Canadian circulation coinage

Production in 1997, 1998 and 1999 (1)

	1999 Total Pieces	1998 Total Pieces	1997 Total Pieces
Coinage dated 1996			
$2	–	–	12,193,000
$1	–	–	–
50¢	–	–	–
25¢	–	–	717,000
10¢	–	–	17,533,000
5¢	–	–	192,000
1¢	–	–	–
Coinage dated 1997			
$2	–	–	16,942,000
$1	–	–	–
50¢	–	–	387,000
25¢	–	–	–
10¢	–	244,000	42,882,000
5¢	–	781,000	26,573,000
1¢	–	42,940,000	506,928,000
Coinage dated 1998			
$2	**383,000**	4,926,000	–
$1	–	–	–
50¢	–	308,000	–
25¢	–	–	–
10¢	**2,441,000**	201,073,000	–
5¢	**10,343,000**	146,530,000	–
1¢	**98,831,000**	900,436,000	–
Coinage dated 1999			
$2	**25,130,000**	–	–
$1	–	–	–
50¢	**235,000**	261,000	–
25¢	**247,514,000**	10,676,000	–
10¢	**222,470,000**	–	–
5¢	**104,206,000**	–	–
1¢	**949,136,000**	264,000	–
Coinage dated 2000			
25¢	**18,891,000**	–	–
Total (all dates)			
$2	**25,513,000**	4,926,000	29,135,000
$1	–	–	–
50¢	**235,000**	569,000	387,000
25¢	**266,405,000**	10,676,000	717,000
10¢	**224,911,000**	201,317,000	60,415,000
5¢	**114,549,000**	147,311,000	26,765,000
1¢	**1,047,967,000**	943,640,000	506,928,000
Total	**1,679,580,000**	1,308,439,000	624,347,000

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

Statistics - Table 2

Canadian circulation coinage

Cumulative production up to December 31, 1999 (1) (2)

	1996	1997	1998	**1999**	**2000**
$2	375,483,000	16,942,000	5,309,000	**25,130,000**	–
$1	17,101,000	–	–	–	–
50¢	458,000	387,000	308,000	**496,000**	–
25¢	28,106,000	–	–	**258,190,000**	**18,891,000**
10¢	51,814,000	43,126,000	203,514,000	**222,470,000**	–
5¢	36,686,000	27,354,000	156,873,000	**104,206,000**	–
1¢	445,746,000	549,868,000	999,267,000	**949,400,000**	–

(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.

Statistics - Table 3

Canadian circulation coinage

Coinage issued in 1999 – Geographic distribution (1) (2)

Province City (3)	**$2**	**$1**	**50¢**	**25¢**	**10¢**	**5¢**	**1¢**
Newfoundland							
St. John's	–	–	–	1,854,000	1,842,500	1,412,000	10,225,000
New Brunswick							
Saint John	1,900,000	–	–	8,750,000	4,830,000	4,712,000	25,052,500
Nova Scotia							
Halifax	191,000	–	–	6,192,000	8,912,500	3,874,000	42,707,500
Quebec							
Montreal	2,644,000	–	–	115,512,000	59,740,000	35,146,000	151,537,500
Ontario							
Ottawa	2,636,500	–	–	26,800,000	20,042,500	13,474,000	65,927,500
Toronto	8,909,000	276,000	–	20,230,000	56,637,500	32,242,000	389,010,000
Manitoba							
Winnipeg	143,000	–	–	8,214,000	7,240,000	4,200,000	41,192,500
Saskatchewan							
Regina	500,000	–	–	4,168,000	4,022,500	2,592,000	25,520,000
Alberta							
Calgary	761,500	–	–	8,458,000	5,835,000	8,008,000	57,665,000
Edmonton	1,541,500	–	–	15,732,000	13,315,000	8,734,000	56,285,000
British Columbia							
Vancouver	4,357,000	–	–	18,052,000	25,695,000	10,356,000	99,612,500
Sundry							
persons (4)	3,938,000	52,000	489,000	25,462,000	345,000	680,000	757,500
Total	**27,521,500**	**328,000**	**489,000**	**259,424,000**	**208,457,500**	**125,430,000**	**965,492,500**

(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.

Canadian numismatic coinage issued

as of December 31, 1999 bearing the dates 1998 and 1999 (1)

	1999 Pieces	1998 (2) Pieces
Platinum Proof Coin Set (999.5 Pt) (3)	434	661
Platinum Proof Coin (999.5 Pt) 1/2 oz.	–	194
Platinum Proof Coin (999.5 Pt) 1/10 oz.	392	664
.99999 Gold Coin	1,909	1,999
22–Karat Gold Coin	6,402	7,149
14–Karat Gold Coin	9,627	11,220
Silver Aviation Cameo Coin Series – Part II		
Coin #7 CP–107 Argus	–	14,711
Coin #8 CL–215 Waterbomber	–	15,237
Coin #9 DeHavilland Canada DHC–6	13,341	–
Coin #10 DeHavilland Canada DHC–8	13,367	–
90th Anniversary Proof Silver Coin Set (6)	–	18,376
90th Anniversary Antique Silver Coin Set (6)	–	24,893
1998 Fine Silver Coin "Bethune"	–	65,831
Silver Lunar Cameo Coin Series	72,453	68,888
10 Ounce Silver Maple Leaf Coin	–	13,533
Proof Silver Dollar	120,896	130,795
Brilliant Uncirculated Dollar	63,881	81,376
Proof Set (4)	90,249	93,632
Specimen Set (5)	91,890	67,697
Uncirculated Set (5)	192,139	145,439
Tiny Treasures Uncirculated Gift Set (5)	63,377	61,927
Oh Canada! Uncirculated Gift Set (5)	77,985	84,410
50 Cent Sterling Silver Proof Coins (Canadian Sports Firsts)	42,963	56,428
50 Cent Sterling Silver Proof Coins (Discovering Nature Series)	79,835	133,310
International Year of Older Persons–1999 Proof Silver Dollar	22,866	–
Millennium Collection		
1999 Millennium Souvenir Set (7)	1,445,150	–
1999 Millennium Commemorative Set (7)	58,246	–
1999 Millennium Chinese Dragon Commemorative Set (7)	6,694	–
1999 Millennium Sterling Silver Proof 25–Cent Coins	113,645	–
1999 Nunavut Gold $2 Coin	4,088	–
1999 Nunavut Proof $2 Coin	39,638	–

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

(2) Revised figures.

(3) Four–coin set.

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

(5) Seven–coin set.

(6) Five–coin set.

(7) Twelve–coin set plus Millennium medallion.

Statistics - Table 5

Maple Leaf coinage

Sales in ounces for 1998 and 1999

	1999	1998
Gold Maple Leaf coinage		
$50 (9999 Au)	**627,067**	593,704
$20 (9999 Au)	**32,380**	32,683
$10 (9999 Au)	**24,732**	21,368
$5 (9999 Au)	**70,992**	30,194
$1 (9999 Au)	**3,142**	2,213
Total (ounces)	**758,313**	680,162
Platinum Maple Leaf coinage		
$50 (9995 Pt)	**3,248**	10,403
$20 (9995 Pt)	**394**	2,743
$10 (9995 Pt)	**523**	954
$5 (9995 Pt)	**408**	571
$1 (9995 Pt)	**200**	100
Total (ounces)	**4,773**	14,771
Silver Maple Leaf coinage		
$5 (9999 Ag)	**1,229,442**	591,359
Total (ounces)	**1,229,442**	591,359

Statistics - Table 6

Refinery operations

for 1998 and 1999

	Gross weight (Troy ounces)		**Refined gold (9999) produced** (Troy ounces) (2)		**Refined silver (999) produced** (Troy ounces) (1)	
	1999	1998	**1999**	1998	**1999**	1998
Deposits from Canadian Mines						
Quebec	**311,855**	438,756	**200,928**	301,533	**75,223**	93,194
Ontario	**610,175**	616,856	**503,411**	517,769	**71,507**	68,373
Saskatchewan	**8**	10	**2**	4	**1**	2
British Columbia	**26,399**	54,764	**20,191**	40,840	**4,451**	10,147
Northwest Territories	–	9,477	–	7,405	–	1,380
Total	**948,437**	1,119,863	**724,532**	867,551	**151,182**	173,096
Deposits from other sources	**1,319,193**	1,932,140	**1,122,518**	1,758,279	**61,160**	54,039
Total	**2,267,630**	3,052,003	**1,847,050**	2,625,830	**212,342**	227,135

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

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