Refining Value

2002 Annual Report

Royal Canadian Mint
Monnaie royale canadienne

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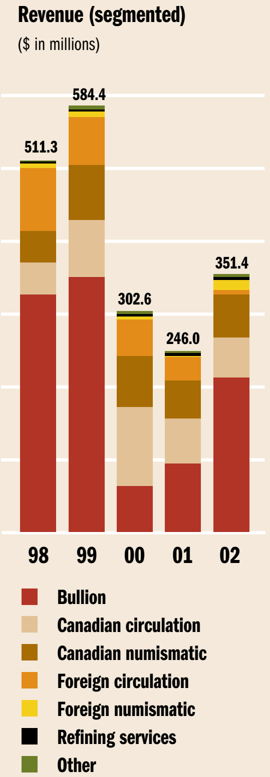
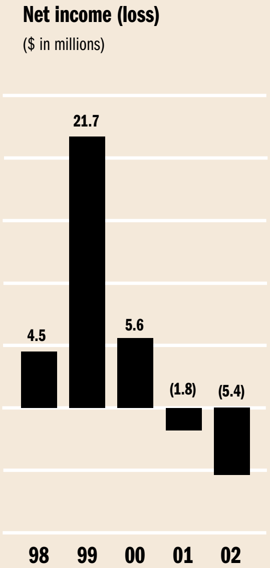
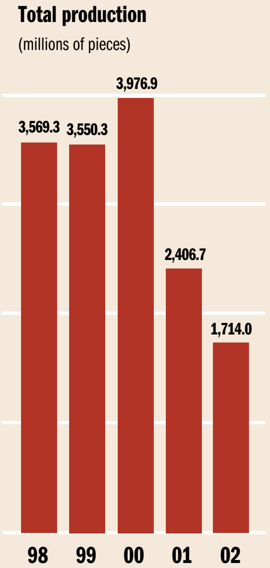
Financial and operating highlights

	2002	2001	% change
Key financial highlights (in millions of dollars)			
Revenue	**351.4**	246.0	42.8
Loss before income tax	**(7.6)**	(1.9)	(300.0)
Net loss	**(5.4)**	(1.8)	(200.0)
Total assets	**151.8**	157.6	(3.7)
Capital expenditures	**4.9**	5.1	(3.9)
Cash flow from operating activities	**23.3**	14.3	62.9
Key operating highlights			
Circulation coins produced (in millions of pieces)	**1,691.4**	2,398.8	(29.5)
Gold bullion sales (in thousands of ounces)	**392.0**	188.8	107.6
% of contribution margin from new products	**19%**	13%	–
Number of employees	**563.0**	639.0	(11.9)
Gross profit (in millions of dollars)	**48.3**	54.8	(11.9)
Value-added sales per employee*	**93.0**	144.0	(35.4)
Pre-tax return on equity	**(8.2%)**	(2.0%)	–
Debt to equity ratio	**0.33:1**	0.36:1	–
Shareholder's equity (in millions of dollars)	**89.0**	94.4	(5.7)
Total production (millions of pieces)	**1,714.0**	2,406.7	(28.8)

*Revenue minus cost of metal divided by average number of employees (in thousands of dollars).







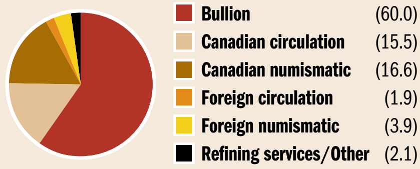
Royal Canadian Mint at-a-glance

Profile/segment description

The Royal Canadian Mint 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.

2002 Revenue

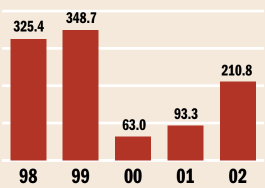
Total revenue (% by segment)



Bullion products

Gold and silver bullion investment products

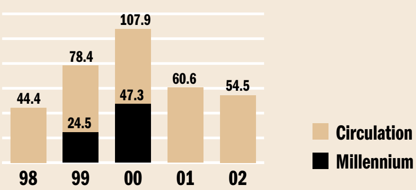
Bullion revenue ($ in millions)



Canadian circulation coins

Coins for business transactions in Canada

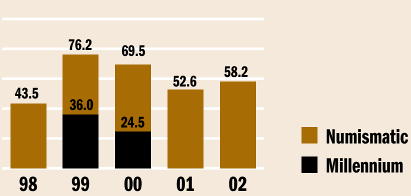
Canadian circulation coin revenue ($ in millions)



Canadian numismatic coins

Canadian precious and base metal collector coins

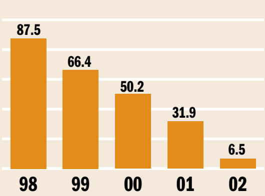
Canadian numismatic coin revenue ($ in millions)



Foreign circulation coins

Coins for business transactions produced for foreign countries

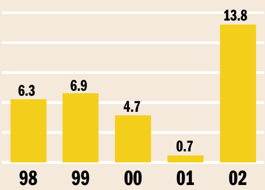
Foreign circulation coin revenue ($ in millions)



Foreign numismatic coins

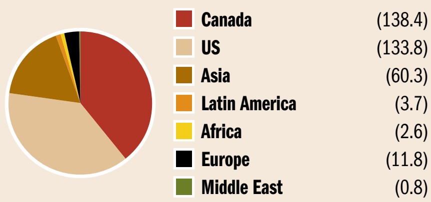
Precious and base metal collector coins produced for foreign countries

Foreign numismatic coin revenue ($ in millions)

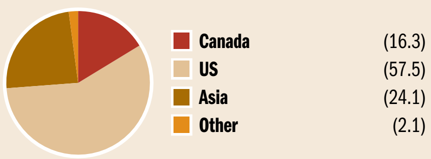


2002 Key statistics

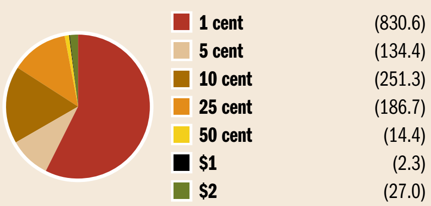
Revenue by region ($ in millions)



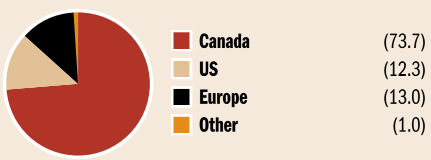
Bullion revenue (% by region)



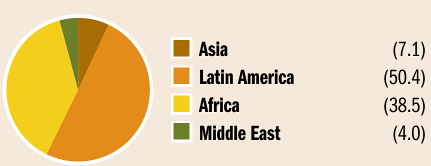
Canadian circulation coins (production in millions of pieces)



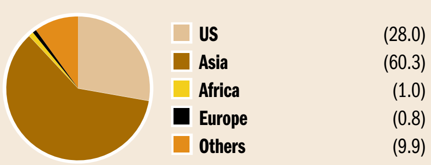
Canadian numismatic coin revenue (% by region)



Foreign circulation coin revenue (% by region)



Foreign numismatic coin revenue (% by region)



Segment outlook

While the year 2003 will be one of transition for the Mint, its strategic priorities continue to be:

- Growth through improved customer knowledge and service.
- Quality and efficiency. The Mint is determined to pursue its position as a world leader in minting through the continued development and application of both innovative and cost effective technology.

Geopolitical anxiety surrounding the situations in North Korea and Iraq, continuing concerns about destabilizing terrorist activity and halting economic recovery continue to affect demand for gold.

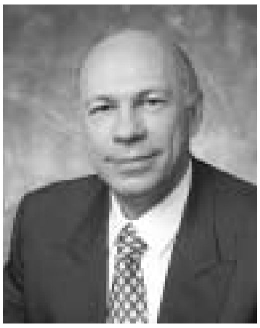
In 2003, the Mint will focus on enhancements to the systems used to manage the supply and distribution of coins across Canada.

Many new products minted in 2002 enjoyed strong sales results. Numismatic sales should continue to grow with the careful management of the secondary market and minting of coins that excite the consumer.

The contraction in the global economy has dramatically reduced the demand for coins. The Mint will focus on offering integrated solutions with a suite of services, including technology transfer and consulting.

The Mint continues to push the boundaries of minting innovation to develop novel effects and extraordinary quality in its coins. Despite this, it approaches 2003 with cautious optimism.

Message from the Chairperson



In 2002, the Royal Canadian Mint took firm steps to ensure its continued success as a world leader in minting. Reaffirming the Corporation's core values, focusing on its core strengths, and decisively advancing the interests of all stakeholders, those steps are carrying the Mint from a period of challenge into one of opportunity.

Challenges met

The global minting marketplace continued to feel the effects of the Euro in 2002: recycled metals and excess minting capacity in Europe led to very low bidding on tenders for the production of circulation coins. As a result, the Mint secured only 16 percent of contracts bid upon.

We refuse to allow adverse external conditions to dampen our long-term business outlook. In the period ahead, we will actively promote our world-leading plating process on the international stage. Building interest in this low-cost alternative to conventional coinage will allow us to take advantage of increased activity on the foreign circulation front when the market experiences its inevitable upturn.

In addition to foreign circulation coins, the Mint also produces collector coins for international markets. Projects in this business line performed below expectations in 2002, resulting in a loss. The Corporation responded quickly to determine why these products did not succeed, applying the lessons learned toward refining its new product introduction process.

The Mint re-evaluated its PURE 9999 precious metal jewellery line in 2002. Originally, this offering represented a natural opportunity for the Mint to gain share in a high-margin market that would complement its low-margin and highly cyclical foreign circulation business. Unfortunately, the global economic downturn that began in 2001 depressed the North American luxury goods retail market. PURE 9999 sales did not materialize as predicted, and the Corporation found itself carrying excess inventory. This excess was written down in 2002.

Governance

I commend and thank the Board for the exceptionally active role it played throughout 2002, demonstrating its commitment to the Corporation and its stakeholders. As the Report of the Auditor General of Canada to the House of Commons (December 2000) stated, "In times of difficulty, turbulence and change, good governance is most critical". Having experienced losses for two consecutive years—and given the departures of members of the Corporation's senior management team—the Mint needed the Board to introduce a fresh perspective and inspire change.

The Board commissioned a thorough review of the Mint's governance practices and approaches—from roles and responsibilities to performance and risk management—with the objective of having the Mint become a leader in best practices. Of these, risk management is particularly crucial. To be a leader and to succeed, the Mint must continue to take measured risks. By managing them effectively, we will realize our strategic goals.

Fulfilling our public policy role

Adapting to the unpredictable economic landscape of 2002, we found both commercial and public success carrying out our public policy role.

Through our Golden Jubilee program, which celebrated the reign of Queen Elizabeth II, more than 14.4 million circulation 50-cent coins were distributed to Canadians. Once again, the Mint produced its Canada Day coin—the official gift to all new Canadians sworn in during *Celebrate Canada Week* Citizenship Ceremonies. The product of a four-year partnership with Citizenship and Immigration Canada, this coin enriches the Canadian experience for new citizens. A numismatic version of the Canada Day coin virtually sold out within weeks of its release.

Ongoing refinement

Building on investments in Enterprise Resource Planning and ISO 9001:2000, the Mint continued working toward its goal of process excellence, aiming to improve quality, reduce costs, ensure timely delivery and strengthen customer satisfaction. Already, we have begun to see promising results. The Mint reduced both its spending and its inventory in 2002. At its Winnipeg facility alone, the Corporation cut inventory by 30 percent, taking advantage of new resource-management approaches to its plating process. Our enhanced ability to handle plated product helped increase production volumes from 500 million to 700 million pieces.

We launched new initiatives in 2002 to improve our understanding of customer values, beliefs and purchasing behaviours. By talking—and listening—to customers, we will gain deeper insights into their motivations and preferences. These will help reduce the risk of new product introductions, allowing us to tailor our offerings more directly to market demand.

Looking back, going forward

As I write this message, the Mint is poised to receive a new President and CEO. I extend my thanks to the Mint's former president, Mme Danielle Wetherup, for her years of service. Under her leadership, the Mint improved its relationship with unionized staff and carried out the exceptionally successful Millennium coin program, which today remains the paramount achievement of any mint in the global industry.

Clearly, 2002 brought success and challenge in equal measure. Yet the difficulties of the past year were limited to individual business lines and do not affect the long-term viability of the organization.

That viability is safeguarded by the people of this Corporation, whose commitment, pride and loyalty have helped the Mint adapt to shifts in its key markets. Collectively, we have built a Corporation with the agility and intelligence to seize upon opportunities and take measured, well-managed risks. The refinements made in 2002 leave us well-positioned for success in 2003—and beyond.

Emmanuel Triassi
Chairperson

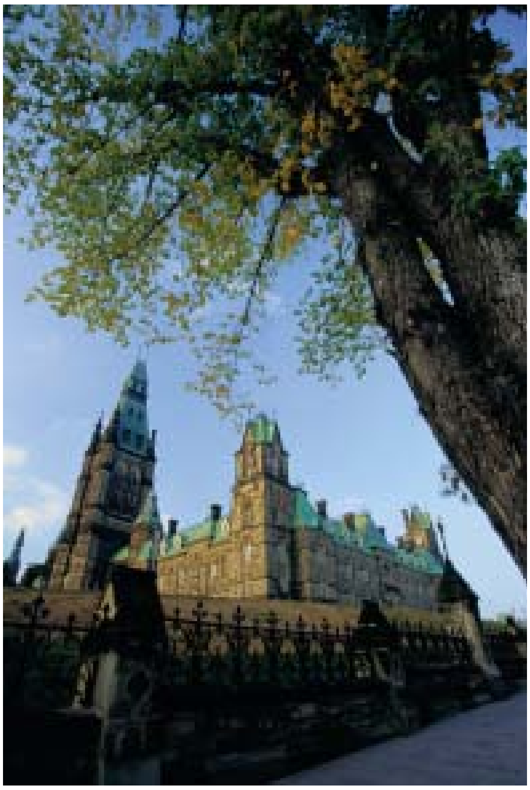
Refining value *for our shareholder*

The primary responsibility of the Mint is to generate value for the Government of Canada, our sole shareholder, in large part through seigniorage. Seigniorage is the profit earned by the Government on the issue of circulation coins to financial institutions. In 2002, the Mint responded to market demand by producing 1.4 billion circulation pieces. This will result in a total of $91 million in seigniorage for the shareholder. Included in that figure are 700 million plated coins produced at the Mint's state of the art plating facility in Winnipeg, which continues to generate savings for the Government in excess of $10 million per year.

Beyond seigniorage, the Mint creates shareholder value by striving for profitability in its other business lines and by continually improving its operational efficiency. While certain products fell short of expectations in 2002, the majority were successful.

Rising standards

The International Standards Organization introduced a new ISO quality-management standard in 2000. The Mint migrated its Winnipeg plant to this new standard successfully in 2002—culminating a nine-month process. The new standard takes an integrated approach that links quality management more closely to the Mint's business goals and customer focus. The Corporation expects to complete the migration of its Ottawa facility early in 2003.



Refining value *for our customers*

In 2002, the Royal Canadian Mint took a fresh look at the value it delivers to customers, identifying and acting on opportunities to strengthen its relationships and focus its product offerings. In an extensive study, the Mint interviewed 750 customers and gathered comprehensive information about their preferences and inclinations as collectors. Sales statistics from the Corporation's database provided precise insights into the buying habits and characteristics of various customer groups. Through this research, the Mint was able to segment its product lines clearly—into a Signature line for committed collectors; a Junior line for youth buyers; and an Impressions line offering premium gifts and collectibles. This information will allow the Mint to reach out and respond more effectively to market demand. Keeping pace with the growth in online sales of its products, the Corporation also began developing a detailed web-marketing strategy.

Faster to market

In the minting industry, timeliness is a key factor. Seeking opportunities to accelerate its time to market, the Mint commissioned an audit of its new product introduction (NPI) process in 2002. The results of that audit will be used in 2003 to construct an action plan enabling the Corporation to bring new, high demand products to market—rapidly and cost effectively.

Refining value *for our employees*

The Mint continues to deliver value to its employees by recognizing their stake in the Corporation's success and communicating its strategic direction openly. These efforts continued in 2002, aided by a new human resources strategy derived from the Mint's overall corporate goals. The 'Business of the Mint' professional development program provided staff with a big picture view of the Mint's operations, helping them recognize the value of their jobs within that larger context.

Leadership training was a key area of focus, tied into the Mint's ongoing succession planning initiatives. The Mint instituted a program of job coaching, job rotation and the filling of acting positions to share and preserve the Corporation's internal knowledge.

Good Relations

The Mint negotiated a three-year collective agreement with the Public Service Alliance of Canada in 2002. Efforts to increase the openness of communication between management and staff contributed to the Mint's lowest grievance statistics in recent years. The Mint's ongoing refinement of its health and safety practices helped reduce accident frequency rates.

Refining value *for all Canadians*

As a Crown Corporation and national institution, the Mint is a strong promoter of Canadian values, culture and identity. The Golden Jubilee of Queen Elizabeth II presented an ideal opportunity for the Mint to fulfill that role in 2002. Coinciding with the Monarch's visit to Canada, the Mint issued a sterling silver commemorative dollar and newly designed 50-cent circulation coin. The Mint also hosted a popular series of tea parties across the country. Four lucky children won a chance to meet the Queen in person through a special contest held by the Mint.

The Mint engaged the talents and imaginations of Canadian children through another contest, soliciting designs for its annual Canada Day coin. Building on the success of previous years, the Mint released a circulation version of the Canada Day coin in addition to its traditional commemorative "colourized" collector coin.

Celebrating Canada

The Mint continued in 2002 to generate interest among Canadians for coins celebrating people, places and events that have helped shape our national identity. A 14-karat gold coin commemorating Alberta's Leduc oil find featured a field of 'black gold' created with Mint pioneered technology; orders to sell out the 10,000 pieces were received within weeks of its release. The Mint also issued the second set in its three-year Festivals series, with coins paying tribute to the cultural contributions of festivals across the country, from Stratford to Squamish. In its Canadian Art series, the Mint released a warmly received 22-karat gold coin replica of Tom Thomson's famous Jack Pine.

Directors and Officers

Board of Directors

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

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

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

Paul-H. Bilodeau
President
Paul-H. Bilodeau and
Associates
Québec City, Québec

Judith A. Kavanagh
Consultant
Montréal, Québec
Chair, Audit Committee

Ernie Gilroy
President
Home Securities
Insurance Services
Winnipeg, Manitoba
Chair, Corporate
Governance Committee

Louis Proulx
President
G. Proulx & Associés
Assurances inc.
Laval, Québec

Hilary Goldenberg
President
Thunder Bay Terminals
Limited, a Russel
Metals Company
Toronto, Ontario

Senior Officers

Beverley A. Lepine
Vice-President
Manufacturing

Brian Legris
Vice-President
Human Resources

Kevin Casey
Acting Vice-President
Administration and
Finance

Marguerite F. Nadeau
General Counsel and
Corporate Secretary

Diane Plouffe Reardon
Vice-President
Communications

Corporate Governance

The Mint's Board of Directors is responsible for overseeing the direction, affairs and management of the Corporation. The Board was very active in 2002, during which there were 12 meetings and 13 meetings of the various committees.

The Mint's Board of Directors considers that good corporate governance practices are essential for the effective and prudent operation of the Corporation and for achieving its objectives.

To ensure that the Board operates in a manner independent of management:
- The roles of the Chairman and Chief Executive Officer are separate
- The Board is comprised of a majority of unrelated directors
- All Board committees are comprised of a majority of unrelated directors

One half of the Board is comprised of directors who became Board members in the past five years. The Board appoints the Corporation's senior management, and delegates authority and responsibility to management. Senior managers are expected to achieve objectives established by the Board, and their performance is evaluated against such objectives.

Management's discussion and analysis of the Corporation's operating performance for 2002 is included in this Annual Report.

Board of Directors' Committees

Audit Committee
The Audit Committee is responsible for ensuring that appropriate internal control procedures are in place over accounting and financial reporting systems. The Committee communicates effectively with the Board, external auditors, internal auditors and management. The Committee promotes the independence of the external and internal auditors and reports regularly to the full Board. The Audit Committee reviews and recommends to the Board for approval, documents such as the Annual Report, the Management Discussion and Analysis and the audited consolidated financial statements.

Human Resources Committee
The Human Resources Committee reviews compensation policies, benefits and other matters relating to employees and monitors succession planning. It reviews the annual performance plan for senior managers, evaluates the performance of the President and Chief Executive Officer, and makes recommendations to the Board of Directors in respect of these matters.

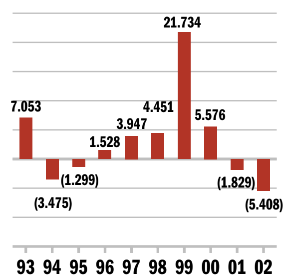
Corporate Governance Committee
The Corporate Governance Committee reviews the structure and composition of the Board and Board committees and defines the relationship, roles and authority of the Board and management. It also provides organizational guidance and oversees the corporation in areas of continuing interest including the corporate plan and corporate policies.

Management's discussion and analysis

Consolidated results of operations

Revenue in 2002 increased 43% to $351.4 million from $246.0 million in 2001, reflecting a surge in demand for gold driven by the economic and political malaise that has affected national economies and consumer demand around the world. Despite the increase in revenue, earnings declined by $3.6 million to a net loss of $5.4 million for the year ($1.8 million net loss – 2001).

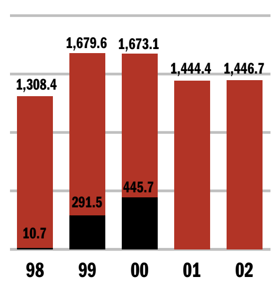
10-year net income (loss)
($ in millions)



The factors behind the year's results include:

- Canadian numismatic revenues rose 11% to $58.2 million from $52.6 million in 2001. New coins introduced by the Mint this year were particularly successful, including those celebrating the Golden Jubilee of Queen Elizabeth II and the 'black gold' 14-karat Alberta Strikes Oil coin.
- Foreign circulation coinage revenue delined 80% to $6.5 million from $31.9 million in 2001. The contraction in the global economy has reduced the demand for coins by foreign governments. Excess global minting capacity created intense competition for the tenders that were issued.
- Losses were incurred in the 2002 foreign numismatic programs. The loss of $2.6 millions related mostly to promotional expenses and a write off of excess inventory at the end of the programs. Although the programs generated $13.8 million of revenue, these sales did not meet expectations.
- The decision to write down by $5.5 million the value of jewellery in inventory. The contraction in the global economy and reduced consumer spending negatively impacted growth of the PURE 9999 business line. Although sales increased to $1.6 million in 2002 ($1.2 million – 2001) the demand for fine jewellery, particularly in the U.S., has been soft.
- Sales of bullion products surged 126% to $210.8 million from $93.3 million in 2001. The strong demand for bullion has a significant impact on the Mint's consolidated revenues, but less impact on earnings due to the small margin earned per ounce sold.

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

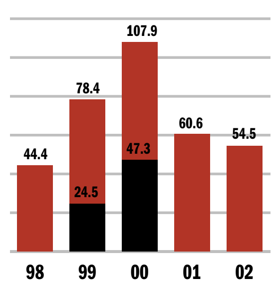


Revenue

Primarily owing to an increase in the sale of bullion, total revenue for 2002 increased to $351.4 million, representing an increase of 43% from $246.0 million in 2001. This increase was offset by declining revenue from foreign circulation coinage as the economic growth in most countries around the world remained flat.

Canadian circulation coins: Revenue from the production of Canadian circulation coins was $54.5 million compared to $60.6 million in 2001, a decrease of 10%. The total number of pieces produced increased slightly (1,446.7 million pieces – 2002; 1,444.4 million pieces – 2001). Revenue in 2002 declined, owing to a shift in the mix of denominations produced.

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

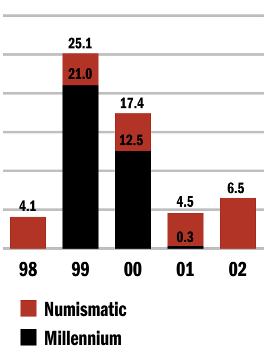


The denominational mix of Canadian circulation coins produced affects the seigniorage earned by the Government of Canada on the issue of the coins to the financial institutions. Seigniorage is the difference between a coin's face value and the cost of production and distribution. It was anticipated that the plating facility in Winnipeg would reduce those costs by $10 million a year – a target the facility has achieved or surpassed every year since its completion in January 2000. Based on 2002 production volumes, the Government will receive seigniorage of $91 million, an increase of 333% from 2001 ($21 million).

The Mint also carries public policy responsibilities to promote national pride. In fulfilling that role, all of the circulation coins minted in 2002 commemorated the 50th anniversary of the coronation of Queen Elizabeth II.

Outlook: Working with its key stakeholders, the Mint will complete enhancements to the systems and processes for managing circulation coins that were initiated in 2002, thereby refining its distribution methodology.

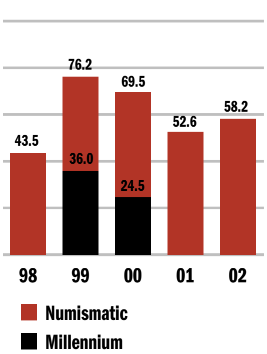
Canadian numismatic coins sold (millions of pieces)
Millennium coins sold (millions of pieces)



Canadian numismatic coins: In 2002, the Mint continued to develop and adapt skills and technologies to expand both the art and science of minting. Of the new products minted during the year, many enjoyed strong sales results. Among the most popular products:

- The 14-karat Alberta Strikes Oil coin to commemorate the discovery of the Leduc oil fields in Alberta. A process developed in 2001 was used to "blacken" the surface of the coin.
- The gold Triple Cameo coin struck with the three portraits of Queen Elizabeth II that have graced Canadian coins over the past 50 years.
- The Golden Tulip 50-cent sterling silver coin on which the Mint used selective plating technology to create a yellow tulip on a silver background.
- The 1912 commemorative $5 and $10 gold coin set. This set marks the 90th anniversary of Canada's first gold coins.
- The one-ounce Good Fortune Silver Maple Leaf coin. Both hologram and laser technology were used on this coin to enhance the colour of the leaf and its contrast with the background.
- The Special Edition Proof Sterling Silver dollar coin with an effigy of the Queen Mother.
- A platinum Maple Leaf hologram four-coin set with its images of the Great Blue Heron.
- The Special Edition Proof Golden Jubilee set.

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



Total revenue from Canadian numismatic coins increased 11% to $58.2 million ($52.6 million – 2001).

Outlook: Although the manufacture of numismatic coins demands highly refined and complex manufacturing skills, the coins are collectibles and

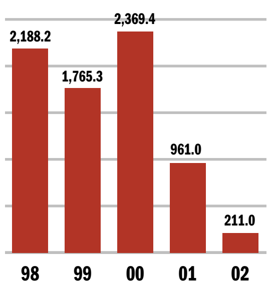
Management's discussion and analysis

must compete against a wide variety of products in the collectibles and gift market. This creates two challenges for the Mint. First, spending on collectibles has declined in the past two to three years along with a broader decline in disposable income. Second, the ability of the Mint to capture a share of this income depends on its ability to create coins that appeal to the emotions and aesthetic sensibilities of potential customers.

In 2002, the Mint continued to push the boundaries of minting innovation, adapting technologies used in other industries to develop novel effects and extraordinary quality. The Mint approaches the year 2003 with cautious optimism, anticipating a market place that remains challenging. Despite this, it expects numismatic sales to continue to strengthen with the careful management of its relationship with the marketplace and the introduction of coins that excite the consumer.

Foreign circulation coins: The Mint produced and sold 211 million blanks and coins for 11 countries (961 million pieces for 16 countries – 2001) generating $6.5 million in revenue ($31.9 million – 2001). The most significant generators of revenue were contracts with countries in Latin America and Africa.

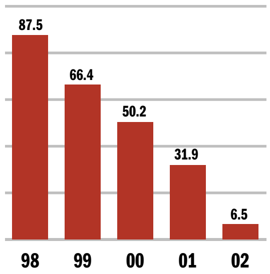
Foreign circulation coins sold (millions of pieces)



Demand for coins depends on economic activity. With most economies growing slowly in 2002, the Mint participated in fewer tenders issued from foreign governments (22 – 2002; 24 – 2001). The Mint's difficulty in securing a significant percentage of those contracts, as it has in the past, reflects the continued excess minting capacity in Europe and an abundance of recycled, low cost base alloys created by the introduction of the Euro on January 1, 2002.

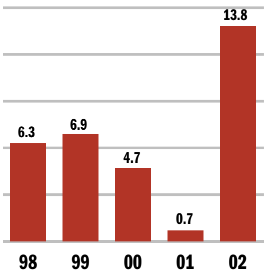
Outlook: There are more than 100 competitors in the global minting industry. While the Mint operates on a revenue generating basis, many other mints are supported by government with subsidies and capital investment. Competition has become fierce and sales have become dominated by cost. Customers have come to expect the lowest price while raising the standard for acceptable quality, delivery schedules and other contract specifications.

Foreign circulation revenue ($ in millions)



The Mint has produced more than 52 billion coins for 62 countries since 1975 and its key competitive advantages today lie in its traditional minting skills, product quality and relationships – and it will continue to market those advantages. The Mint's future, however, lies in proving to its customers the advantages of low-cost plated products and technology and convincing more countries to change the legislation that defines their currency specifications. In 2003, it will focus its efforts on offering integrated solutions with a suite of services and options including technology transfer, consulting services, coins and blanks.

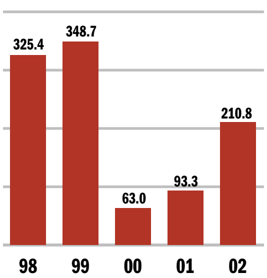
Foreign numismatic revenue ($ in millions)



Foreign numismatic: The Mint produced numismatic coins and blanks for countries in several continents, particularly in North America and Asia. Total foreign numismatic sales were $13.8 million ($667,000 – 2001).

Outlook: Foreign numismatic sales are heavily dependent upon the occurrence of historic events and anniversaries that are significant enough to be commemorated with the minting of a special coin. The Mint will continue to pursue these sales, but it will be more cautious in developing its partnership agreements to ensure the success of future ventures. In early 2003, it was anticipated that sales of foreign numismatic products in the year would be spread among a few small contracts.

Bullion product revenue ($ in millions)

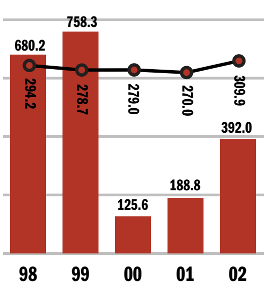


Bullion: Revenue from bullion products increased 126% to $210.8 million ($93.3 million – 2001), reflecting broader trends in the marketplace:

- Geopolitical anxiety around the world – particularly surrounding the situations in Iraq, Venezuela and North Korea – coupled with continuing concerns about destabilizing terrorist activity.
- The continued decline in world stock markets in the face of stumbling economies and lack of faith in the management of public companies.

The Mint's gold sales rose 108% to 392,000 from 188,800 ounces sold in 2001. The gold price increased from an average US$270 an ounce in 2001 to range between US$278 and US$349 in 2002.

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



At the same time that demand for gold surged, supply declined. Owing to that high demand, gold mining companies that had traditionally hedged their future production cut back or eliminated their hedging programs. Hedging by the mining companies creates supply in the marketplace by selling gold that is still in the ground. By not hedging, the mining companies decrease the supply of gold available to the market.

During 2002, the breadth and flexibility of the Mint's manufacturing capabilities, particularly its ability to produce its own blanks, allowed it to respond more quickly to opportunities – and in a skittish gold market, speed is a critical competitive advantage. As a result, the Mint re-established its position as the largest supplier of bullion wafers and coins, increasing its worldwide market share to 40%, an increase of about 8% over the same period in 2001.

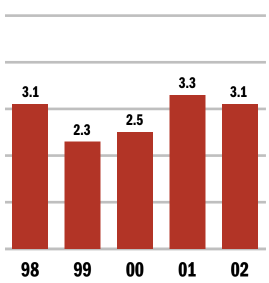
Management's discussion and analysis

Investor demand for silver shadowed the demand for gold, but was offset by declining industrial demand. At the same time, China, a major producer of silver, is also experiencing declining industrial demand for the metal and continues to sell millions of ounces on the international market every year. The Mint's silver sales rose 44% to 576,000 ounces from 399,000 ounces in 2001. The silver price fluctuated from US$4.24 to US$5.10 per ounce from US$4.06 to US$4.87 in 2001.

Bullion strategy/outlook: The unresolved situation in Iraq in early 2003 made it difficult to predict movements in the price of gold in the coming year. However, gold sales may decline as gold purchased by investors over the past 18 months is sold on the secondary market.

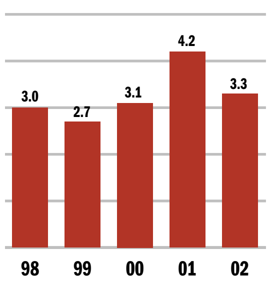
Refining services: The Mint refines and recasts gold for a variety of Canadian and foreign customers. It markets gold granules for use in jewellery and manufacturing, and assays gold for mining companies and other precious metal organizations. Refinery revenues decreased by 21% to $3.3 million in 2002 ($4.2 million – 2001), attributable to the completion of a short term refinery contract and a return to normalized refinery volumes. The refining operation also supports the manufacturing of the Mint's bullion coins and numismatic coins that contain precious metal.

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



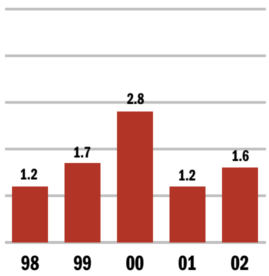
Outlook: Worldwide, there is approximately two to three times the refining capacity required. North America's mined gold production has been in decline for at least a decade and the refinery industry has responded through rationalization, consolidation and, in some cases, closure. Despite the intense competition in the industry, the Mint has been able to slightly increase its market share and profitability by offering specialty products and services, reducing costs and making continuous improvements in its processes. It is anticipated refining revenues will expand in 2003 as the Mint continues to develop and market refinery specialty products and services. It is also possible that mining companies, encouraged by gold prices, will open previously uneconomical mines.

Refining services revenue
($ in millions)



Jewellery: In 1997, the Mint launched coin related jewellery products and encouraged by its modest success, developed in 2000 the PURE 9999 line in partnership with several jewellery designers. This precious stone jewellery line has been distributed through high end retail stores in North America, but consumer reaction to the design and quality has been much less than anticipated. This results from a number of factors including price range, fashion trends and timing. Although jewellery sales increased by 33% to $1.6 million ($1.2 million - 2001), the Mint finds itself carrying a large inventory of PURE 9999 products at the end of 2002 and has decided to write down the value of the PURE 9999 jewellery inventory

Jewellery revenue
($ in millions)



by $5.5 million. For 2003, our primary goal will be to strategically reduce this inventory.

Outlook: While the Mint continues to explore all distribution opportunities for its PURE 9999 jewellery inventory through various retail channels, the fine jewellery industry expects sales to remain flat throughout 2003 owing to a steady decline in consumer spending patterns in the USA.

Other: The Mint produces a wide variety of tokens, medals and trade dollars. Revenue from these products increased 50% to $2.1 million in 2002 ($1.4 million – 2001). The most significant contract was the production and distribution of 46,000 Golden Jubilee of Queen Elizabeth II medals for the Governor General of Canada. The individuals to receive the medals were chosen by various organizations invited to propose the names of candidates for the Medal: the federal, provincial and territorial levels of government, national, professional, educational and cultural organizations, military and the Royal Canadian Mounted Police, veterans' groups, sports associations, and philanthropic and charitable bodies.

Operating costs

Operating costs, including cost of goods sold and the costs of marketing, administration and depreciation were $358.0 million, an increase of 46% over costs of $245.3 million in 2001. Cost of goods sold, which represents 86% of total operating costs (78% – 2001), increased 59% to $303.0 million ($191.1 million – 2001). This increase reflects increased volumes of bullion wafers and coins, numismatic coins and Canadian circulation coinage and the increased price of gold.

Major projects – process and systems improvements

During 2002, the Mint focused on developing the depth of capabilities inherent in the corporate-wide systems that had been implemented in early 2001. After a year of working with the system, its basic functions were being used to integrate the Mint's operations, information and people. The challenge of 2002 was to optimize the Mint's use of these complex and robust tools, particularly in planning and manufacturing.

The major process and systems achievements in 2002 included:

- The development of web-based delivery of sales and marketing information and reports, to undertake in-depth analysis of the Mint's customers.
- The tools and skills developed to build the sales and marketing database were transferred to similar applications in manufacturing for time/attendance systems, created for more efficient tracking of materials and labour.

- The implementation of a web-based coin pool system to maintain inventories of Canadian coins in 22 locations across Canada, including more sophisticated forecasting algorithms (for implementation in 2003).
- The development of an electronic data interchange system to receive and process orders electronically, ensuring all advance shipping notices and labels complied with the increasingly stringent requirements of customers.

There are four major process and systems projects scheduled for 2003:

- The manufacturing system will be expanded to improve production planning and forecasting and capacity planning in the manufacturing facilities in both Winnipeg and Ottawa. In Winnipeg, it will also be expanded to improve inventory management. In Ottawa, systems will be expanded to integrate engineering into the manufacturing process.
- The development of a more robust use of systems in refinery services to introduce capacity planning and reduce redundancies.
- The introduction of bar code technology to the inventory management of master tooling, including punches and die control.
- The development of data marts for general ledger, procurement, inventory, accounts receivable and accounts payable. By the end of 2003 the Mint will have an integrated suite of repositories of information managed centrally and delivered through a web browser.

Manufacturing improvements

During 2002, the Mint focused on improving its existing systems infrastructure. Refinements in the techniques used to produce plated products led to improvements in quality and reductions in costs. Over the year, the Winnipeg plant developed a process that has enhanced the quality of circulation coins and tripled die life to strike rates as high as 500,000 to one million with one tool.

The most significant change to manufacturing at the Mint in 2002 was the implementation of bar code technology. Other changes designed to improve manufacturing processes were reorganization of the engineering function at the Mint and the merging of engraving and die production.

In 2003, the Mint will continue to make changes and improvements in individual processes and systems. It will also start to implement Fail Modes and Effects Analysis (FMEA), a tool commonly used in the automotive industry to prevent failures, and automating the statistical process control (SPC) system to monitor and manage deviations from specifications on-line in real time.

The measure of the success of all of these improvements is meeting the customers' expectations and delivering on time. During the year, Winnipeg achieved ISO 9001:2000 certification. Ottawa expects to achieve the same certification in 2003.

Marketing and Sales

Marketing and Sales costs decreased to $25.1 million ($26.3 million – 2001), reflecting decreased demand for some products and reduced business activity. The year 2002 was one of refinement for the Mint's Marketing and Sales division. At the core of this refinement was a renewed focus on the Mint's customers.

The Customer Relationship Management system (CRM) made it possible to more thoroughly analyze and segment customers by purchasing habits. In 2003, the Mint will continue to mine customer data through CRM, a detailed analysis of each business line and the associated channel partners. The objective is to maximize profitability by refining the Mint's product offering, targeting, messaging and customer support through a better understanding of the sales process and customers in each channel.

In addition to this ongoing analysis, Marketing will launch an on-line customer and dealer forum in 2003. This will be used to develop the Mint's customer driven product development capacity. A second research initiative will be a customer satisfaction study that will enable the Mint to compare customer satisfaction to benchmarks provided by the American Customer Satisfaction Index.

The Marketing and Sales division will also complete the study of stakeholders' perceptions of the Mint and the unique attributes that define its brand identity. Once completed, a brand position will be established and used to ensure brand consistency across all products and communications with customers.

This customer focus has already resulted in a simpler product line with the elimination of products not performing well or inconsistent with the Mint's strategies for growth. And it has led to the decision to build a stronger secondary market by limiting the mintages of new products.

In 2003, the Marketing and Sales department will focus on developing a more efficient process that will ensure new products are introduced quickly, cost effectively and in keeping with the Mint's established standards for quality. This approach will help to reduce congestion on the plant floor through improved workflow management and identify potential problems that could diminish the success of the product.

Management's discussion and analysis

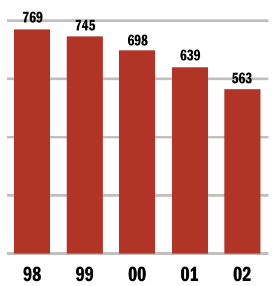
The Mint and e-commerce

Sales through www.mint.ca increased 56% to $2.8 million in 2002 ($1.8 million – 2001). This significant increase reflects a full year of selling through the robust web store launched in mid-2001. The number of website orders received during 2002 climbed to 18,419 (12,681 – 2001). The Internet continues to be an effective channel for reaching individuals who might not otherwise purchase products from the Mint, particularly customers in the United States.

Human resources management

Employment at the Mint declined to 563 persons by the end of 2002 (639 persons – December 31, 2001), including both permanent and temporary employees. The decline reflects both the decline in demand for the Mint's products and services and the implementation of manufacturing processes and information systems that improve productivity per employee. Wages and benefits decreased to $33.6 million ($38.2 million – 2001).

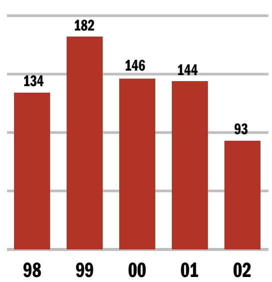
Number of employees
(at December 31)



In 2003, the focus will be on the implementation of a succession plan and knowledge management system. Many of the employees in manufacturing are expected to retire over the next five to 10 years. It is essential that the necessary skills be developed and that critical, proprietary information resident in retiring employees, particularly information related to maintaining quality and efficiency, be documented and made accessible.

Spending on skills development declined to $0.5 million in 2002 ($0.6 million – 2001). Coaching and training remains a critical component of management's commitment to employees. The decline in spending reflects the fact that the plating facility in Winnipeg, built in early 2000, is now fully operational and that most employees have become familiar with the new management and operating processes that have been used to transform the Mint over the past seven years. It also reflects the shift from more formal in-class learning to training on the job.

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



The Mint also successfully negotiated a three-year collective agreement with the Public Service Alliance of Canada.

Occupational health and safety

The accident frequency rate declined to 2.0 (6.9 – 2001). The severity rate increased to 54.1 (39.9 – 2001), reflecting one (1) injury with extended recovery time at the Ottawa facility. Group discussions of the responsibility and obligation of both managers and employees to maintain safe working conditions were held in Winnipeg and Ottawa along with training programs aimed specifically at reducing injury frequency and severity. During 2003, the effectiveness of the awareness programs and training will be reviewed and every effort made to identify and resolve situations or problems that could endanger the well being of the Mint's workforce. An audit will be conducted at the Winnipeg facility and site managers given the support and training to allow them to assume greater responsibility for health and safety at the plant.

Environment

The Mint continuously tests and reviews its operations and procedures to ensure that its plants do not adversely affect the environment or the health and safety of employees. In 2002, improvements were made to the treatment of wastewater in Winnipeg and the effectiveness of those changes will be monitored monthly throughout 2003. In the coming year, the Mint will also complete and submit the National Pollutant Release Inventory (NPRI) report for Winnipeg and Ottawa. The Mint is committed to environment management systems that comply with the more stringent ISO 14001 standards, and is assessing the value of pursuing certification during the year. On an ongoing basis, the Mint works with other government agencies to review, interpret and provide input to new and evolving environmental legislation that could impact its operations.

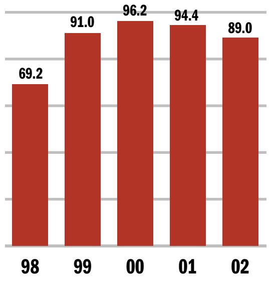
Administrative costs

Administrative costs increased to $21.8 million from $21.0 million in 2001. The increase reflects reorganizational costs and a rise in insurance premiums. However, this increase was offset by a determined effort to control discretionary expenditures to match the decline in demand for the Mint's products and services. Administrative costs as a percentage of revenue decreased to 6%.

Operating results

Income (loss) from operations declined to ($6,633,000) from $616,000 in 2001. Gross profit margin decreased to 14% from 22% in 2001. Changes in the Mint's operating income and gross profit reflect promotional expenses and inventory write off related to the foreign numismatic programs and the write down of jewellery and other numismatic inventory.

Shareholder's equity
($ in millions)



A net foreign exchange gain of $440,000 was realized in 2002 (net foreign exchange loss of $560,000 - 2001) as a result of improved management of working capital and a weakening US Dollar during the year.

Interest income increased to $496,000 compared to $220,000 in 2001. Interest expense in 2002 was $1.9 million compared to $2.1 million last year, incurred primarily by the debt related to the construction of the plating facility.

Depreciation expense increased to $8.1 million compared to $6.9 million in 2001.

Management's discussion and analysis

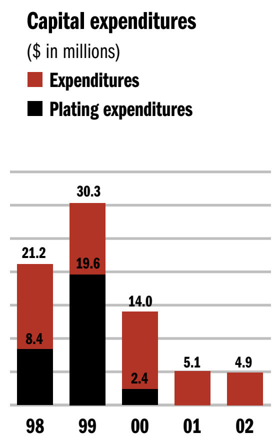
Liquidity and capital resources

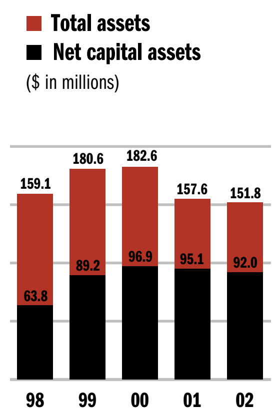
Cash and short-term investments increased to $18.9 million from $5.2 million at the end of 2001. Throughout the year, the Mint was able to fund operations and capital expenditures with no short-term borrowing. The Mint's debt-to-equity ratio declined to 0.33:1 from 0.36:1.

Capital expenditures: Total capital expenditures in 2002 were $4.9 million ($5.1 million – 2001). The Mint's capital spending program in 2002 was focused on improving the Mint's operating productivity, reliability and flexibility. The major expenditures included:

- $0.7 million for the implementation of bar code technology in the Winnipeg and Ottawa manufacturing facilities.
- $0.6 million on the optimization of the ERP system, the development of enhanced business intelligence and infrastructure upgrades.

Financing: By December 2002, the Mint had reduced the plating facility debt to $21.7 million with a scheduled $3.1 million repayment of capital and $1.9 million interest payment. The Mint also made a scheduled $1.4 million repayment of principal and interest on a 10-year debt due December 2007.

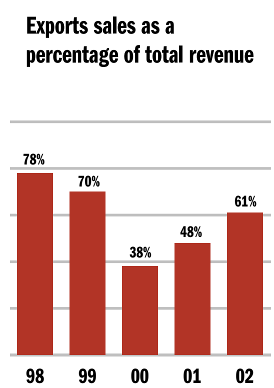




Risks to performance

Precious metal risk: The Mint purchases three precious metals – gold, silver and platinum. These metals are used in the Maple Leaf and numismatic coins. The Mint is not exposed to risk in 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 is done on the same date, using the same price, and in the same currency. For numismatic products, risk is mitigated through a precious metal risk management hedging program involving forward contracts and options. At the end of 2002, the Mint had eight forward contracts in place related to the purchase of 507,607 ounces of silver for the Mint's coin programs.

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



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

Outlook

The Mint anticipates the difficult market environment of the past two years to continue. It does not expect a significant improvement in the demand for numismatic or foreign circulation coins and the competition to meet that demand will remain unusually intense. The year 2003 will be a transition year for the Mint, but its strategic priorities remain the same:

1. Growth. The technologies implemented over the past few years have made it possible for the Mint to improve its competitiveness through improved customer service, a better understanding of its customers, and improved communication with customers and suppliers. It improves the availability and quality of information available on customers, sales, costs, profitability, forecasts and key performance indicators, thereby increasing the Mint's responsiveness and flexibility.

2. Quality and efficiency. The Mint is determined to pursue its vision to become the world leader in minting through continued development and application of both innovative and cost-effective technology along with the diligent implementation of the principles of lean manufacturing. It will also continue to improve productivity through integration, automation and process improvement.

Global leadership can be achieved only through improved communications with customers to ensure every product produced not only meets, but exceeds their requirements and expectations. This will mean renewed focus on reducing defects and the consequent rework and production delays incurred to ensure only quality coins are delivered.

Finally, the Mint entered into a joint venture with Travelway Group International Inc. (TGI) through its wholly owned subsidiary. TGM Specialty Services Inc. will offer packaging products and services to domestic and international markets, including turnkey customer solutions that require assembly, distribution and retail management services. The corporate joint venture with TGI is a reflection of its intention to grow through vertical integration and strategic alliances to take advantage of lucrative niche markets that are natural extensions of the Mint's business.

The continued advancements in technology, business intelligence, productivity and efficiency will allow the Mint to compete more effectively in an intensely competitive environment. These inherent skills and knowledge combined with the development of a more profitable approach to that market, will ensure the Mint continues to provide value to the Government of Canada, the people of Canada, its employees and its customers.

Statistics

Table 1 – Canadian circulation coinage

Production in 2000, 2001 and 2002 [1]

	2002 Total Pieces	2001 Total Pieces	2000 Total Pieces
Coinage dated 1998			
1¢	**–**	–	311,000
Coinage dated 1999			
$2	**–**	–	–
$1	**–**	–	–
50¢	**–**	–	–
25¢	**–**	–	698,000
10¢	**–**	–	35,992,000
5¢	**–**	–	20,655,000
1¢	**–**	–	140,225,000
Coinage dated 2000			
$2	**–**	33,000	29,847,000
$1	**–**	–	–
50¢	**–**	14,000	559,000
25¢	**–**	1,665,000	415,196,000
10¢	**–**	1,673,000	159,125,000
5¢	**–**	2,253,000	108,514,000
1¢	**–**	9,939,000	761,970,000
Coinage dated 2001			
$2	**–**	11,910,000	–
$1	**–**	–	–
50¢	**–**	389,000	–
25¢	**3,620,000**	60,562,000	–
10¢	**–**	270,792,000	–
5¢	**6,000**	166,686,000	–
1¢	**864,000**	918,495,000	–
Coinage dated 2002			
$2	**27,008,000**	–	–
$1	**2,302,000**	–	–
50¢	**14,440,000**	–	–
25¢	**183,112,000**	–	–
10¢	**251,278,000**	–	–
5¢	**134,362,000**	–	–
1¢	**829,715,000**	–	–
Total (all dates)			
$2	**27,008,000**	11,943,000	29,847,000
$1	**2,302,000**	–	–
50¢	**14,440,000**	403,000	559,000
25¢	**186,732,000**	62,227,000	415,894,000
10¢	**251,278,000**	272,465,000	195,117,000
5¢	**134,368,000**	168,939,000	129,169,000
1¢	**830,579,000**	928,434,000	902,506,000
Total	**1,446,707,000**	1,444,411,000	1,673,092,000

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

Table 2 – Canadian circulation coinage

Cumulative production up to December 31, 2002 (1) (2)

	1998	1999	2000	2001	**2002**
$2	5,309,000	25,130,000	29,880,000	11,910,000	**27,008,000**
$1	–	–	–	–	**2,302,000**
50¢	308,000	496,000	573,000	389,000	**14,440,000**
25¢	–	258,888,000	435,752,000	64,182,000	**183,112,000**
10¢	203,514,000	258,462,000	160,798,000	270,792,000	**251,278,000**
5¢	156,873,000	124,861,000	110,767,000	166,692,000	**134,362,000**
1¢	999,578,000	1,089,625,000	771,909,000	919,359,000	**829,715,000**

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

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

Table 3 – Canadian circulation coinage

Coinage issued in 2002 (1) – Geographic distribution (2)

Province City (3)	**$2**	**$1**	**50¢**	**25¢**	**10¢**	**5¢**	**1¢**
Newfoundland							
St. John's	10,000	222,000	–	858,000	2,412,500	1,144,000	12,682,500
New Brunswick							
Saint John	1,714,000	390,000	–	5,350,000	5,120,000	3,560,000	20,315,000
Nova Scotia							
Halifax	–	139,000	–	760,000	7,162,500	4,474,000	41,052,500
Québec							
Montréal	8,105,500	13,402,000	–	86,940,000	78,682,500	44,578,000	192,677,500
Ontario							
Ottawa	5,510,000	374,000	–	19,850,000	19,845,000	12,974,000	58,552,500
Toronto	10,085,000	3,615,000	–	9,068,000	53,590,000	21,882,000	257,755,000
Manitoba							
Winnipeg	126,500	1,265,000	–	4,080,000	7,645,000	4,742,000	39,592,500
Saskatchewan							
Regina	305,000	–	–	1,816,000	4,407,500	2,356,000	20,562,500
Alberta							
Calgary	164,500	1,310,000	–	6,404,000	11,452,500	7,080,000	51,077,500
Edmonton	1,609,000	1,380,000	–	7,118,000	16,310,000	10,642,000	61,280,000
British Columbia							
Vancouver	3,390,500	2,386,000	–	14,560,000	27,232,500	14,456,000	87,140,000
Sundry persons (4)	89,000	165,000	14,440,430	852,000	372,500	3,242,000	4,182,500
Total	**31,109,000**	**24,648,000**	**14,440,430**	**157,656,000**	**234,232,500**	**131,130,000**	**846,870,000**

(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.

Statistics

Table 4 – Canadian numismatic coinage

Issued as of December 31, 2002 bearing the dates 2001 and 2002 [1]

	2002	2001[2]
Platinum Proof Coin Set [3]	**344**	448
Platinum Maple Leaf Hologram Set [6]	**485**	–
.99999 Gold Coin	**1,803**	1,988
22-Karat Gold Coin	**5,264**	5,406
14-Karat Gold Coin	**9,992**	8,080
Silver Lunar Cameo Coin Series	**59,395**	60,754
Proof Sterling Silver Dollar – Golden Jubilee	**119,233**	89,390
Queen Mother Proof Sterling Silver Dollar	**9,984**	–
Brilliant Sterling Silver Dollar	**63,582**	53,668
Proof Set – Golden Jubilee [4]	**65,461**	74,194
Special Edition Proof Set – Golden Jubilee [4]	**32,642**	–
Specimen Set [5]	**66,268**	54,613
Uncirculated Set [5]	**97,279**	115,897
Special Edition Uncirculated Set – Golden Jubilee [5]	**49,860**	–
Tiny Treasures Uncirculated Gift Set [5]	**49,963**	52,085
Oh Canada! Uncirculated Gift Set [5]	**60,484**	66,726
$20 Sterling Silver Hologram Cameo Coins (Land, Sea and Rail Series)	**33,244**	41,828
$150 18-Karat Gold Hologram Coin	**6,596**	6,571
Golden Tulip 50-Cent Sterling Silver Coin	**19,984**	–
50-Cent Sterling Silver Coin (Canadian Festivals Series)	**58,998**	58,123
50-Cent Sterling Silver Coin (Canadian Folklore and Legends Series)	**19,267**	28,979
10-Cent Sterling Silver Coin (Year of Volunteers)	**–**	40,634
Sterling Silver Two-Coin Set (First Transatlantic Wireless Transmission)	**–**	28,540
5-Cent Sterling Silver Coin (Royal Military College of Canada)	**–**	25,834
5-Cent Sterling Silver Coin (Vimy Ridge)	**22,646**	–
3-Cent Coin and Stamp Set	**–**	59,573
Special Edition – 1911 Sterling Silver Dollar	**–**	24,996
1 Ounce Silver Maple Leaf Coloured Coin	**29,983**	49,900
1 Ounce Silver Maple Leaf Hologram Coin (Anniversary Loon)	**29,463**	29,906
1912 Commemorative $5 and $10 Gold Coin Set	**1,998**	–
Gold Maple Leaf Viking Privy Set	**–**	1,000
Gold Maple Leaf Hologram Five-Coin Set	**–**	600
1/4 ounce Gold Maple Leaf Hologram Coin	**–**	14,614
25-Cent Coloured Coin (Canada Day)	**49,903**	96,352
Triple Cameo Coin	**993**	–
Golden Jubilee Keepsake Booklet (five coins)	**200,170**	–
Golden Jubilee Keepsake Booklet (ten coins)	**116,034**	–

(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.

Table 5 – Maple Leaf coinage

Sales in ounces for 2001 and 2002

	2002	2001
Gold Maple Leaf coinage		
$50 (9999 Au)	**344,883**	138,878
$20 (9999 Au)	**14,353**	13,273
$10 (9999 Au)	**10,735**	8,792
$5 (9999 Au)	**4,502**	6,347
$1 (9999 Au)	**857**	1,036
Total (ounces)	**375,329**	168,326
Silver Maple Leaf coinage		
$5 (9999 Ag)	**576,196**	398,563
Total (ounces)	**576,196**	398,563

Table 6 – Refinery operations

For 2001 and 2002

	Gross weight (Troy ounces)		Refined gold (9999) produced (Troy ounces) (1)		Refined silver (999) produced (Troy ounces) (2)	
	2002	2001	**2002**	2001	**2002**	2001
Deposits from Canadian Mines						
Québec	**253,828**	157,806	**152,086**	72,936	**16,850**	8,184
Ontario	**524,661**	1,247,910	**376,681**	453,797	**50,920**	719,375
Total	**778,489**	1,405,716	**528,767**	526,733	**67,770**	727,559
Deposits from other sources	**2,365,576**	1,908,043	**2,105,798**	1,700,680	**116,616**	83,526
Total	**3,144,065**	3,313,759	**2,634,565**	2,227,413	**184,386**	811,085

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

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

Management report

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

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

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 consolidated financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the consolidated financial statements.

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

Emmanuel Triassi
Chairperson and Acting President

Kevin Casey
Acting Vice-President, Administration and Finance

Ottawa, Canada
February 28, 2003

Auditor's report

To the Minister of Transport and Minister responsible for the Royal Canadian Mint:

I have audited the consolidated balance sheet of the Royal Canadian Mint as at December 31, 2002 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 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 28, 2003

Consolidated balance sheet

as at December 31 (in thousands of dollars)

	2002	2001
Assets		
Current		
Cash	**$ 1,452**	$ 5,237
Short-term investments (note 3)	**17,460**	–
Accounts receivable	**13,761**	17,356
Prepaid expenses	**2,475**	1,908
Deferred charges	**–**	4,333
Inventories (note 4)	**24,675**	33,708
	59,823	62,542
Property, plant and equipment (note 5)	**91,971**	95,064
	$ 151,794	$ 157,606
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 25,445**	$ 19,074
Current portion of loans (note 6)	**5,782**	6,023
Deferred revenues	**2,526**	1,581
	33,753	26,678
Long-term		
Deferred revenues	**–**	844
Loans (note 6)	**23,358**	27,747
Future tax liabilities (note 7)	**93**	2,502
Employee future benefits (note 8)	**5,602**	5,439
	29,053	36,532
Shareholder's equity		
Share capital (authorized and issued, 4,000 non-transferable shares)	**40,000**	40,000
Retained earnings	**48,988**	54,396
	88,988	94,396
	$ 151,794	$ 157,606

Commitments (note 11)

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board of Directors

Emmanuel Triassi
Chairperson

Approved by Management

Kevin Casey
Acting Vice-President, Administration and Finance

Recommended for approval on behalf of the Audit Committee

Judith Kavanagh
Chair

Consolidated statement of operations and retained earnings

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

	2002	2001
Revenues	**$ 351,358**	$ 245,958
Cost of goods sold	**303,015**	191,110
Gross profit	**48,343**	54,848
Other operating expenses		
Marketing and Sales	**25,107**	26,322
Administration	**21,808**	20,983
Depreciation	**8,061**	6,927
	54,976	54,232
Income (loss) from operations	**(6,633)**	616
Net foreign exchange gains (losses)	**440**	(561)
Interest income	**496**	220
Interest expense	**(1,863)**	(2,134)
Loss before income tax	**(7,560)**	(1,859)
Income tax recovery (note 7)	**(2,152)**	(30)
Net loss	**(5,408)**	(1,829)
Retained earnings, beginning of year	**54,396**	56,225
Retained earnings, end of year	**$ 48,988**	$ 54,396

The accompanying notes are an integral part of these statements.

Consolidated cash flow statement

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

	2002	2001
Cash flows from operating activities		
Cash receipts from customers	**$ 354,514**	$ 271,042
Cash paid to suppliers and employees	**(331,299)**	(252,779)
Interest received	**496**	220
Interest paid	**(1,863)**	(2,707)
Income taxes	**1,424**	(1,468)
	23,272	14,308
Cash flows from investing activities		
Purchase of short-term investments	**(17,460)**	–
Purchase of property, plant and equipment	**(4,967)**	(5,109)
	(22,427)	(5,109)
Cash flows from financing activities		
Repayment of loans	**(4,630)**	(4,100)
Net increase (decrease) in cash	**(3,785)**	5,099
Cash at the beginning of year	**5,237**	138
Cash at the end of year	**$ 1,452**	$ 5,237

The accompanying notes are an integral part of these statements.

Notes to consolidated financial statements
December 31, 2002

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 system for the Government of Canada. The Mint is one of the world's foremost producers of circulation, collector and bullion investments coins for the domestic and international marketplace. It is also one of the largest gold refiners in the world.

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

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and 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.

2. Significant accounting policies

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

a) Consolidation

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

b) Short-term investments

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

c) Inventories

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

d) Property, plant and equipment

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

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

e) Deferred revenues

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

f) Deferred charges

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

g) Employee future benefits

i) Pension benefits

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

ii) Other benefits

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

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. As a self-insured employer, the Corporation is accountable for all such liabilities incurred since incorporation. Liability for workers' compensation benefits is actuarially determined based on known awarded disability and survivor pensions and other potential future awards in respect of accidents that occurred up to the value measurement date. The benefit entitlements are based on the respective legislations in effect on that date. An accrued post-employment benefit obligation representing the continuation of certain employer paid benefits for employees on long-term disability is also actuarially determined. The determination takes into account expected mortality, recoveries and health care and dental trend rates. The excess of the net actuarial gain (loss) over 10% of the obligation is amortized over a period of 10 years, which is consistent with the average duration of these liabilities.

h) Foreign currency translation

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

i) Income tax

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

j) Derivative financial instruments

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

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset the cash flows of the hedged position and the timing is similar. Premiums paid or received with respect to derivatives are recognized based on the original hedge designation date.

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

k) Use of estimates

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

3. Short-term investments

In accordance with the Corporation's short-term investment policy, all investments in Corporate entities must be rated R-1 low or better by the Dominion Bond Rating Service (DBRS) and investments in banking entities must be rated AA or better by Moody's or Standard and Poors. The investments vehicles consist primarily of commercial paper. The overall portfolio yield as at December 31, 2002 was 2.99% (2001 – not applicable) and the average term to maturity is 26 days (2001 – not applicable). The fair market value of the investment portfolio at year-end approximates the book value.

Notes to consolidated financial statements

December 31, 2002

4. Inventories

(in thousands of dollars)

	2002	2001
Raw materials	**$ 7,744**	$ 8,405
Work in process	**4,504**	4,883
Finished goods	**10,921**	17,382
Supplies	**1,506**	3,038
	$ 24,675	$ 33,708

Inventory as at December 31, 2002 includes a write down of $5.5 million on jewellery inventory.

5. Property, plant and equipment

(in thousands of dollars)

			2002	2001
	Cost	Accumulated Depreciation	**Net Book Value**	Net Book Value
Land	$ 3,226	$ –	**$ 3,226**	$ 3,226
Land improvements	914	739	**175**	198
Buildings	75,350	23,542	**51,808**	52,630
Equipment	81,127	48,724	**32,403**	35,162
Hardware and software	12,269	7,910	**4,359**	3,848
	$ 172,886	$ 80,915	**$ 91,971**	$ 95,064

6. Loans

(in thousands of dollars)

	2002	2001
10-year loan due December 2007, bearing interest at 5.840% calculated semi-annually with the principal repayable in ten equal annual installments commencing December 1998	**$ 5,000**	$ 6,000
Amortizing bond with two year interest holiday maturing December 2009, semi-annual coupon at 7.753% starting June 2000 with principal repayable in ten equal installments commencing December 2000	**21,700**	24,800
Accrued interest on bond	**2,440**	2,970
	$ 29,140	$ 33,770
Less current portion of loans	**5,782**	6,023
	$ 23,358	$ 27,747

7. Income tax

(in thousands of dollars)

	2002	2001
Current tax expense (recovery)	**$ 280**	$ (1,430)
Future tax expense (recovery)	**(2,432)**	1,400
	$ (2,152)	$ (30)

Income tax expense differs from the amount that would be computed by applying the Federal statutory income tax rate of 36.12% (2001- 38.12%) to loss before income tax. The reasons for the differences are as follows:

	2002	2001
Computed tax expense	**$ (2,731)**	$ (709)
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for		
enacted changes in tax laws and rates	**225**	86
Other net amounts	**129**	304
Large Corporation Tax	**225**	289
	$ (2,152)	$ (30)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at 2002 and 2001 are presented below:

	2002	2001
Future tax assets:		
Loss carry-forwards	**$ 3,150**	$ 339
Employee future benefits	**1,960**	1,960
	5,110	2,299
Future tax liability		
Capital assets	**(5,203)**	(4,801)
Net future tax liability	**$ (93)**	$ (2,502)

8. Employee future benefits

i) Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at a rate of 2.14 times the employees' contribution (2001 - 2.14:1). The Corporation's contribution to the plan during the year was $3,890,000 (2001 – $3,559,000).

ii) Other benefits

The Corporation provides severance benefits and workers' compensation benefits to its employees. These benefits are not pre-funded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation. The accrued benefit obligation of these benefits, including the short-term portion, is $6,102,000 at the end of the year (2001 – $5,939,000) and are fully recorded in the books of account. The current year's expense for these benefits is $780,000 (2001 – $575,000) and total benefits paid amounted to $618,000 (2001 – $1,244,000). The actuarial assumptions adoped in measuring the Corporation's accrued benefit obligations were based on a 6.5% liability discount rate (2001 – 6.5%) and rates of compensation increase of 4% to 4.5% (2001 – 2% to 4.5%) which reflect current economic indicators, merit and promotional increases.

9. Related party transactions

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

10. Derivative financial instruments

The Corporation uses financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and precious metal prices. There were no foreign exchange forward contracts outstanding at the end of the year (2001 – US$10.6 million). Precious metal forward contracts worth US$2.3 million were outstanding at the end of the year (2001 – nil). In accordance with the Corporation's investment policy, all investments and other financial instruments are rated AA or better by Moody's or Standard and Poors. The carrying amounts of each investment approximates their fair value due to the short-term nature of their maturity.

11. Commitments

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Mint leases, on 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, 2002, 113,119 ounces of gold, 898,787 ounces of silver and 2,564 ounces of platinum were leased under these contracts (2001 – 113,067 ounces of gold, 1,450,878 ounces of silver and 1,184 ounces of platinum).

12. Comparative figures

Some of the prior years' comparative figures have been reclassified to conform to the current year's presentation.