2004 Annual Report

APPRECIATING VALUE

Royal Canadian Mint

Monnaie royale canadienne

2004 ANNUAL REPORT

APPRECIATING VALUE

ROYAL CANADIAN MINT

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Head Office and Ottawa Plant
Royal Canadian Mint
320 Sussex Drive
Ottawa, Ontario
Canada K1A 0G8
(613) 993-3500

Winnipeg Plant
Royal Canadian Mint
520 Lagimodière Blvd.
Winnipeg, Manitoba
Canada R2J 3E7
(204) 983-6400

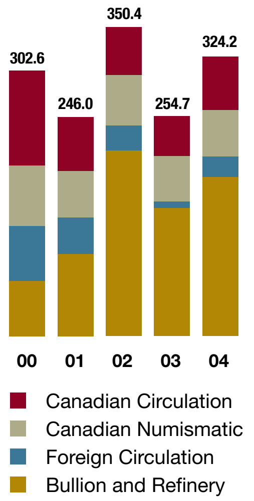
www.mint.ca

Printed in Canada

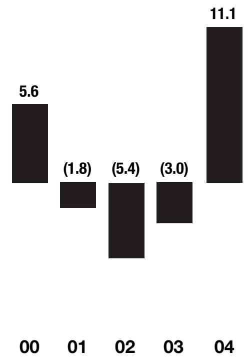
Financial and operating highlights

	2004	2003	% change
Key financial highlights (in millions of dollars)			
Revenue	**324.2**	254.7	27.3
Income before income tax	**16.0**	0.5	3,100.0
Net income (loss) from discontinued operations (net of taxes)	**0.0**	(2.7)	100.0
Net income (loss)	**11.1**	(3.0)	470.0
Total assets	**168.8**	140.2	20.4
Capital expenditures	**6.9**	4.6	50.0
Cash flow from operating activities	**18.6**	13.8	34.8
Key operating highlights			
Circulation coins produced (in millions of pieces)	**2,055.4**	1,363.2	50.8
Gold bullion sales (in thousands of ounces)	**285.8**	237.6	20.3
Number of employees	**672**	471	42.7
Gross profit	**72.0**	54.5	32.1
Value-added sales revenue per employee	**154.0**	67.0	130.0
Pre-tax return on equity from continuing operations	**17.4%**	0.6%	2,800.0
Debt to equity ratio	**0.21:1**	0.29:1	(33.3)
Shareholder's equity	**97.0**	86.0	12.8
Total production (millions of pieces)	**2,060.8**	1,367.5	50.7

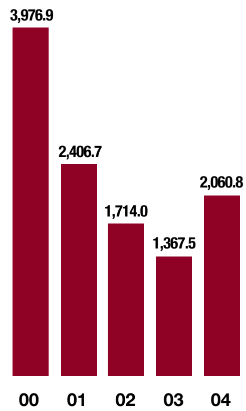
Revenue (segmented)
($ in millions)



Net income (loss)
($ in millions)



Total production
(millions of pieces)



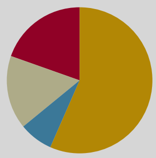
The Mint at a glance

BUSINESS LINE | **BUSINESS LINE RESULTS**

Royal Canadian Mint

The Royal Canadian Mint is a fully commercial Crown corporation responsible for the production of all circulation coins used in Canada and for the management of the supporting distribution system. It is also one of the world's premier producers of circulation, numismatic and bullion investment coins for the domestic and international marketplace. As one of the world's largest gold refiners, it refines and recasts gold for Canadian and foreign customers.

Revenue by segment



Cdn. circulation	63.4
Cdn. numismatic	52.6
Foreign circulation and numismatic	25.1
Bullion, Refinery and other	183.9

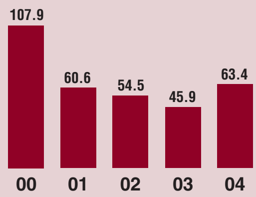
In 2004, the Mint delivered revenue of $324.2 million and net income of $11.1 million, one of the largest year-over-year turnarounds in its history.

Canadian Circulation

The Mint's responsibilities include:

- Providing Canadians with high quality, cost effective coins
- Managing the inventory and distribution of coins
- Promoting awareness of people, places and events of importance in Canadian history.

Revenue ($ in millions)

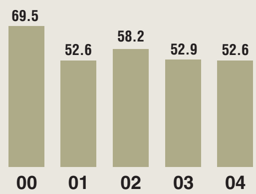


Increased revenue was driven by strong economic growth and the issue of three circulation coins in the first year of a multi-year program celebrating the themes of Canadian heroes and historical events.

Canadian Numismatic

The Mint's numismatic products celebrate Canada's diverse culture, rich history, natural splendor and national achievements. The Mint also produces uncirculated, specimen and proof sets of circulation coins.

Revenue ($ in millions)

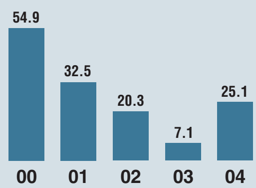


By producing only coins with well researched themes and setting appropriate mintages, the Mint sold out 18 of the 50 products issued in 2004 (compared to 6 in 2003).

Foreign Circulation

The Mint designs and strikes foreign circulation and numismatic coins and blanks using various alloys as well as the Multi-Ply technology developed to mint Canadian coinage. The Mint also promotes its coin production tooling and consulting services.

Revenue ($ in millions)

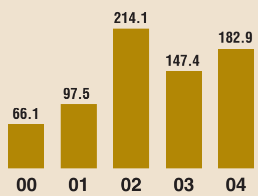


Over the past year the Mint has re-established traditional customer relationships and demonstrated the effectiveness of its technology through the Canadian experience.

Bullion and Refinery

The Mint produces gold and silver bullion coins as well as gold wafers, bars and granules. It also refines gold and offers precious metal storage, assaying and consulting. The breadth of services and capabilities allows the Mint to offer its customers an integrated solution.

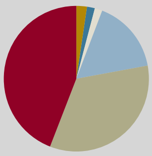
Revenue ($ in millions)



Demand for bullion was particularly strong in 2004, driven by weak returns in the capital markets and the depreciation in the value of the U.S. dollar.

REGIONAL OR PRODUCTION STATISTICS	OUTLOOK

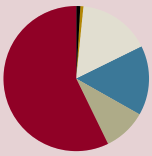
Revenue by region ($ in millions)



Canada	143.0
US	109.6
Asia	52.7
Latin America	5.3
Africa	7.0
Europe	6.6

Economic growth in 2005 will create an environment that supports the Mint's continued profitability. The Mint remains focused on being a *Lean* enterprise to achieve its goal of building revenue to $1 billion by 2009 and generating substantial seigniorage for the Government of Canada.

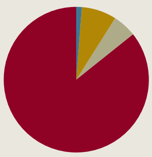
Production (millions of pieces)



1 cent	788.2
5 cent	132.1
10 cent	214.1
25 cent	221.4
$1	9.9
$2	12.9

In response to strong domestic demand, the Mint will expand the capacity of the plating facility in Winnipeg and expand its capabilities to produce yellow coins, including the blank for the $1 Canadian coin.

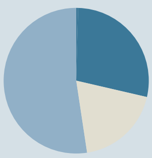
Revenue (% by region)



Canada	85.7
US	5.4
Europe	7.8
Other	1.1

New policies on reduced mintages will drive the urgency to purchase the Mint's products quickly. In 2005, the Mint will launch themes with coast-to-coast appeal and deep emotional roots in the collective Canadian psyche.

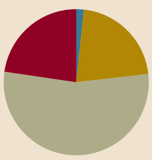
Revenue (% by region)



Asia	52.5
Latin America	18.8
Africa	28.7

Sales of foreign circulation coins are expected to continue to increase at the pace set in 2004 as the price of alloys continues to increase and the expanded sales force continues to re-establish traditional customer relationships. The Mint will also continue to offer integrated solutions, including technology transfer and consulting.

Revenue (% by region)



Canada	23.3
US	53.7
Asia	21.5
Other	1.5

The precious metal market is a mature, cyclical market, but the 2005 outlook for bullion remains strong. In 2005, silver refining will be added to the suite of refining services.

Message from the Chairperson

The Board of the Royal Canadian Mint has worked hard over the past few years to inspire, enable and facilitate change within the Corporation. That change, both deep and wide-ranging, has been necessary for the Mint to recover its profitability and to re-establish commitment to its core business.

I am very pleased to say that last year, the results of our hard work were realized. At the same time, the Board continued to evolve its mode of operation and persisted in its assertion to pursue its responsibilities in an active and engaged manner.

In 2004, the Board established two new committees: one dedicated to Strategic Planning; the other a Nominating committee to manage appointments to the Board. Our committee-based approach ensures closer, more regular interaction between management and the Board, bringing critical issues to the fore sooner and affording a mechanism for enacting swift decisions.

The Board also developed a set of new policies last year, sharpening the Mint's competitive edge through new approaches to controlling numismatic coin volumes.

Ultimately, our Board of Directors is committed not only to supporting the Corporation's management team, but also to challenging that team to make the best decisions—and achieve the best results—on behalf of our Shareholder and the Canadian public. We aim to further the Mint's position of leadership in corporate governance, engaging other Crown corporations as well as private-sector organizations in an active dialogue on best practices.

One specific goal for 2005 is the development of an enterprise risk management approach that will complement the Corporation's strategic planning.

As Canada's national emblem, the Maple Leaf is one of the most recognized symbols in the world. This series of coloured Silver Maple Leafs continues to strike an emotive chord with Canadians and collectors alike. The 2004 mintage is sold out.

The 60th Anniversary of D-Day Commemorative Set enjoyed immediate acclaim from the numismatic and military collectible markets, with all 20,000 sets selling out. The set featured a 5-cent sterling silver rendering of the of the 1944 Tombac Nickel.

Now that we have returned to profitability, our next challenge is to achieve sustainable growth for the long term. While development of the specific strategies to do this is the responsibility of management, I and my fellow Board members will review, critique and approve all strategies undertaken to ensure that they accord with the best interests of the Corporation and the Canadian government.

Good governance demands commitment, not simply of intentions but of time and effort. I must acknowledge the dedication and energy of the Mint's Board members for their work in 2004, sitting on committees, working alongside the Mint's management team, and participating in industry events to gain an ever-clearer understanding of the business we're in. All went above and beyond the call of duty.

I sincerely congratulate David Dingwall on his outstanding leadership. He has inspired the entire Mint workforce with his enthusiasm and drive, and engaged them in the pursuit of growth and prosperity for the Corporation. And I extend my warmest thanks to our employees, and to our customers and partners, for their positive energy and visible commitment to our growth and prosperity.

I look forward to the growth that lies ahead. While we have set ambitious plans for ourselves, we are embracing them wholeheartedly.

Emmanuel Triassi
Chairperson, Board of Directors
Royal Canadian Mint

Message from the President and CEO

2004 was a year of extensive reorganization and profound cultural change for the Royal Canadian Mint. We returned to profitability and set the stage for growth in 2005, reorienting every aspect of the Corporation toward delivering value to customers and to our shareholder, the Government of Canada. We experienced substancial growth and added 201 new employees. As a result, we ended the year with a substantial surplus of $16.0 million, marking one of the largest single fiscal swings in Mint history.

For its shareholder, the Mint generated $64.3 million in seigniorage—the difference between the face value of the circulation coins and our costs to produce and distribute them. And for the first time in a decade, the Mint intends to declare and issue a dividend to the Government of Canada in the sum of $1 million in 2005.

These are strong indicators that our chosen path is the right one. It will take the Mint from a manufacturing organization to a powerful, identifiable brand in its own right. It will open up new, diverse product-marketing opportunities, lending the Mint strength and versatility. It will also allow us to focus further on our customers with the support of a dependably solid bottom line. We are just in the beginning stages of this journey today, but already the results have been excellent.

Our culture is key to our success. We have engaged employees fully in the process of change, continuously communicating the Mint's new vision and customer focus through quarterly all-staff meetings; our Leadership Council forum; and the annual employees' meeting. We invested three percent of payroll in staff training programs last year. In 2005, we will update our awards program for employees, recognizing their contributions to our growth. Their discipline and creativity have been truly remarkable.

Lean Enterprise was an essential driver of our return to profitability. *Lean* initiatives brought considerable reductions in lead times and inventory levels, and refinements to

The world watched on October 21, 2004, as Canada became the first to issue a coloured circulation coin. Over 28 million coins were collected by Canadians in less than a month, during which time over 45,000 collector coins and 69,000 rolls were sold out.

The 25th Anniversary Gold Maple Leaf marked the first change in design since its introduction to the world bullion market in 1979. While bullion and numismatic markets are traditionally distinct, this offering from the Mint lead to crossover from both customers. All 10,000 limited edition coins were sold within a week.

operations in all business lines. Most importantly, they put us back in direct touch with customers, renewing our appreciation of their values and priorities.

Among the many IT projects undertaken last year, we planned and designed a new website that will improve business-to-customer and business-to-business interactions. The site, slated for launch early in 2005, features a heightened focus on 'e-tailing'. It will drive web sales—already up 62 percent in 2004—to new levels. We also updated our IT platforms last year, preparing for modernization of our enterprise resource planning (ERP) infrastructure in 2005.

We move forward with ambitious growth plans. We will continue to deliver products and services of value to our customers, releasing exciting new Canadian circulation coin designs and introducing innovative numismatic products. We will expand our foreign circulation business, add a silver refinery at the Ottawa plant, and investigate the feasibility of offering a precious-metals trading vehicle through the Mint website.

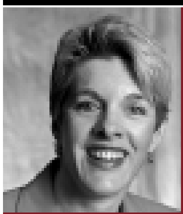
We will sustain the dialogue with customers and partners that we have worked so hard to establish. We will create a formal customer-feedback mechanism, and review comments regularly at management meetings to validate and refine our activities going forward.

In 2004, we improved upon our execution strategies to achieve the many goals that we set for ouselves. We will further that improvement in 2005 to rise to the challenge of introducing even more products and services in the coming year.

We move forward with ambitious plans indeed—and with the confidence inspired by this year's success that we can, and will, execute them successfully.

David C. Dingwall
President and CEO
Royal Canadian Mint

Performance against objectives

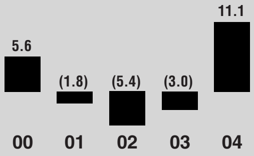
BUSINESS LINE	2004 PERFORMANCE GOAL
 **Royal Canadian Mint** “ Having delivered upon profitability in 2004, the Mint is now poised for growth in 2005 and beyond.” *David C. Dingwall* *President and CEO*	1. Generate a profit and maintain the long-term viability of the corporation. 2. Create a work environment that ensures all employees can participate in building the Mint’s position as a global leader in minting.
 **Canadian circulation coins** “ The expansion of the plating facility will provide greater operational flexibility and will bring the production of the aureate blanks in-house.” *Manon Laplante, Executive Director* *Canadian Circulation*	1. Ensure Canadian circulation coins are high quality, cost effective and available to meet the needs of trade, commerce and the vending industry. 2. Increase demand and seigniorage by issuing new denominations or commemorative coins. 3. Continually improve operations and operating margins.
 **Canadian numismatic coins** “ The Mint’s new policies and shorter product lead times have contributed to a threefold increase in product sell outs.” *Greg Smith, Executive Director* *Numismatics*	1. Grow revenue by expanding our market. 2. Increase contribution by reducing costs. 3. Strengthen the portfolio of products and investment value of the Mint’s products.
 **Foreign circulation** “ The Mint’s targeted focus on customers has resulted in a stronger foothold in the foreign circulation market.” *Peter J. Ho, Executive Director* *Foreign Circulation*	1. Focus on countries that would achieve the greatest benefit from the Mint’s Multi-Ply technology. 2. Generate the maximum ROI in tender assesment. 3. Promote the Mint’s value added services.
 **Bullion and Refinery** “ The new silver refinery coming in 2005 and other customer focussed initiatives position the Mint as a key player in the marketplace.” *David Madge, Executive Director* *Bullion and Refinery*	1. Enhance visibility in the marketplace. 2. Leverage Maple Leaf and Mint brand equity through new designs. 3. Expand refining services and market share.

	2004 PERFORMANCE	2004 KEY PERFORMANCE MEASURE

2004 PERFORMANCE

- Earned net income of $11 million in 2004.
- Closed 2004 with $22 million cash balance of (2003 – $19 million) and retained earnings of $57 million (2003 – $46 million).
- Continued enterprise-wide succession planning to ensure knowledge and leadership remain strong.
- Leadership training provided to all key employees.
- Cross-functional work teams identified and completed 132 *kaizens* to improve workflow.

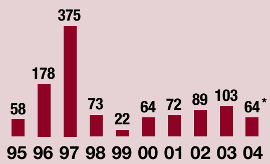
Net Income ($ in millions)



- Distributed 1,376 million coins. Met all coin requests.
- Seigniorage increased to $64.3 million in 2004 (2003 – $28 million).
- Three commemorative coins issued:
  - Poppy Coin (28.9 million issued)
  - Lucky Loonie (6.5 million issued)
  - L'Acadie Quarter (15.5 million issued).
- Alloy recovery program generated $8 million in revenue.
- Plating facility capacity increased by 10% through *Lean* initiatives.
- Roll and wrap function incorporated into Winnipeg production process in a strategic vertical integration move.

Seigniorage ($ in millions)

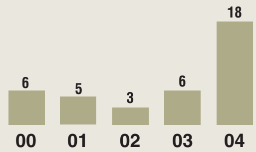
per Government of Canada year end



** estimated calendar year*

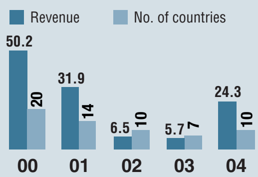
- 20,000 new customers generated by the circulation coin programs.
- Developed Christmas gift set that was distributed through The Bay and Zellers.
- Introduced redesigned baby, graduation and wedding gift sets.
- Developed cost reducing standard packaging.
- Web marketing campaigns increased web sales by 59%.
- Increased product diversification, issuing 50 products in 2004 (2003 – 37).
- Sold out 18 of 30 new coins issued.
- Announced 12-month limit on sales availability of new products.
- Integrated the new product development into a single stream function.

Numismatic sell outs



- Secured contracts with 10 countries.
- Won 40% of the tenders submitted.
- Won the largest single denomination contract in the Mint's history, 1 billion baht for Thailand.
- Leveraged international reputation for collector coins to produce numismatic programs for Bermuda, Ecuador and Panama.
- Conducted 13 awareness raising events at home and abroad.

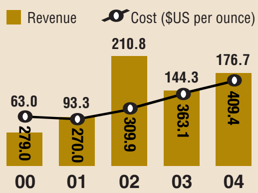
Revenue* / Number of countries served



** excluding numismatic*

- The CEO toured Tanaka Gold Corporation in Japan, the first visit in more than eight years.
- Celebrated 25th anniversary of the Gold Maple Leaf with a commemorative design.
- Developed a plan to expand into silver refining in 2005.
- 46% increase in rough gold deposits driven by focus on customer service.
- Secured long term contract from Cambior, a new customer to the Mint.

Bullion revenue / Cost of gold



Taking it's lead from a great Canadian legend, the Mint struck an official Lucky Loonie, providing one for each Canadian athlete at the Athens Games for good luck. Over 6 million circulation coins were distributed through the Royal Bank of Canada, and 20,000 painted collector coins sold out.

By engaging stakeholders and building relationships, the Mint accessed new business opportunities—among them the biggest contract in Mint history for production of a single denomination: manufacture of one billion circulation coins for the government of Thailand.

Visible and personal

In 2004, the Mint worked to reconnect with customers and gain a new understanding of what they value.

The Mint invited dealers and distributors to Ottawa for a forum on expanding their collector base and promoting secondary market values. It briefed sales channel partners on the Mint's strategic plan and product lineups, and invited Masters Club members to every coin launch held in their region.

Senior managers attended banking conferences and International Monetary Fund (IMF) events. Circulation coin executives met with Canada's banks, evaluating individual institutional needs and sharing the Mint's multi-year circulation coin plan. Armoured car companies were also consulted as part of this process, aimed at ensuring that Canada's sophisticated circulation coin system remains a leading model of effectiveness.

The Chief Operating Officer, sales representatives and plant operations managers visited foreign circulation customers; numismatic managers and sales personnel attended industry association events to speak with customers one on one. In 2004, the Mint focussed on a smaller number of foreign circulation clients chosen for their potential to switch to plated coin, of which the Mint is a world-leading supplier.

the year in pictures

In 2003, the Mint created a selectively gold-plated one-cent Proof coin that proved to be a popular collector's item, with great interest from the secondary market. The coin was produced with a particularly novel aim in mind.

That novel aim was a collectible annual report, limited issues of which contained the gold-plated Proof penny. Exemplifying the spirit of the new *lean* and creative Mint, the 2003 annual report was a solid success, selling 9,100 units.

Lean and profitable

After three years of operating losses, the Mint returned to profitability in 2004, achieving a pre-tax profit of $16 million—far above the $3.7 million projected. The Mint generated $64.3 in seigniorage for the federal government and for the first time in ten years, intends to declare and issue a dividend of $1 million in 2005.

These successes were achieved largely due to the Mint's adoption of a *Lean Enterprise* approach. Corporate processes were evaluated and refined to deliver optimal customer value. Among them: order processing and customer satisfaction, die production, engraving, quoting and new product introduction. All 132 *Lean* initiatives were driven by cross-functional teams of Mint staff.

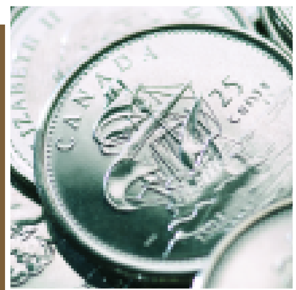
The Mint reduced its supplier base from 6,000-plus to just over 800, and cut its lead times, getting product to customers faster and achieving higher margins in the process. The reductions were impressive: 209 days to 30 in assembly and shipping; 134 to 83 days in product design; and 222 days to 65 in bullion production.

IT initiatives included modernization of the Mint's product lifecycle management (PLM) system. Now, Mint staff from every part of the supply chain can log into one repository that integrates 3D and CAD coin-design activity with product specification data, new product design and introduction information, engineering change information and workflow data.

The Quadruple Cameo Coin features all four effigies of Her Majesty Queen Elizabeth II, as they have appeared on our circulation coins since 1953. Subject to a made to order mintage, the maximum of 1000 was reached within a month.

This year's annual report features a special version of the Mint's flagship 2004 coin, the Poppy Coin. This Sterling Silver Proof Coin features a raised Poppy relief that is selectively gold plated. Strong forecasted demand has raised the mintage to 15,000.

Celebrating the 400th anniversary of the First French Settlement in North America—on the island of Saint Croix, NB—this coin was unveiled in Bayside, NB. More than 15 million L'Acadie coins were kept by Canadians as souvenirs; they are rarely found in circulation.



2004 sellouts included: Poppy coin First Day Covers and a Silver Poppy issue; Lucky Loonie retail and silver aureate collector sets; a sterling five-cent collector coin featuring the 1944 torch-and-V design in commemoration of the 60th anniversary of D-Day; a holiday gift set containing a 25-cent coloured Santa coin; and a 25th anniversary Gold Maple Leaf (GML) bullion coin.

The innovative technology of the Natural Wonders Series continues to beguile collectors, with the Iceberg issue selling out. A result of the Mint's market research program, this series features holograms, coloured relief and selective plating technologies.

Creative and responsive

Basing its themes, designs and technologies on extensive market research in 2004, the Mint produced a number of high profile coins that sold out rapidly.

Among these was the world's first coloured circulation coin: the 25-cent Poppy honouring Canada's veterans, which was distributed nationwide through a partnership with Tim Hortons. 28.5 million coins were issued, with a remarkable 69,000 rolls purchased via direct-mail and web.

The Mint also released a circulation Lucky Loonie featuring the Canadian Olympic Committee logo in partnership with the Royal Bank of Canada. Six million coins were absorbed into the Canadian distribution system in just two months, and overall demand for loonies increased by 62 percent. In Numismatics, a range of collector and retail consumer products was developed, many complementing circulation coin releases. 18 of these sold out, compared with 3 in 2003.

The Mint introduced creative features at its interactive Ottawa boutique. It set up an interactive display, a token souvenir striking machine used by 44 percent of visitors; non-coin Canadiana souvenir products generated an extra $190,000 in revenue.

In September 2004, the Mint signed the largest single-denomination production contract in its modern history: one billion Baht coins for the Government of Thailand. The Mint's Winnipeg Plant will produce the coins through August 2005.

Through a longstanding partnership dating back more than 10 years, the Mint produces Papua New Guinea's circulation coinage. Lower denominations are struck using plating technology, an increasingly attractive option for foreign governments eager to reduce costs.

Rigorous and disciplined

In 2004, the Mint proceeded with aggressive plans for growth, cultural transformation and governance renewal. The corporation made extensive efforts to maintain staff morale and enthusiasm, keeping employees informed and fostering a strong sense of inclusion.

Managers regularly attended administrative and Executive Committee meetings, participated in retreats, and attended presentations by expert guest speakers. The Chief Financial Officer made quarterly presentations to employees, and management participated in the second Leadership Council, briefing employees on the Mint's customer focus, business aims and strategies.

New recruits completed a six-day orientation program that exposed them to different jobs in the Mint's supply chain. Call center and boutique personnel participated in customer service training. More than 50 Mint employees took part in a five-day program of leadership training as part of the corporation's succession plan. The Mint is determined to transition its workforce smoothly and intelligently through the mass retirement of *Baby Boomers* that is about to affect the North American workforce.

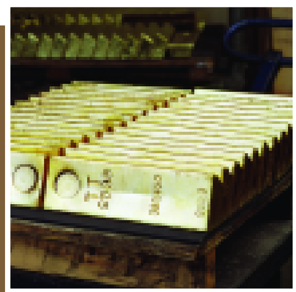
The Board completed a comprehensive governance review. Directors established two new committees and created new policies in the areas of intellectual property, mintage volumes, and coin destruction.

The 2004 Platinum Set, the finest quality platinum coins in the world, was an instant sell out when the made-to-order maximum mintage of 380 was achieved within weeks of introduction.

Employee response to the new Mint culture has been positive. In 2004, the voluntary turnover rate was just 0.6 percent, and in a year of collective bargaining, just 16 grievances were filed by union employees compared with 67 in the last bargaining year (2000). To recognize staff for their contributions to the Mint's growth, the corporation created a rewards program for employees that will roll out in 2005.

Long considered safe haven during economic downturns, the Government of Canada will now allow investors to include investment-grade metals in their RRSP portfolios. As a result, the Mint anticipates increased interest in its refined gold products and storage services.

Focusing on timely, accurate and turnkey customer service, the Mint's Refinery Sales team generated a 42% increase in rough gold deposits last year. Silver refining will be added to the Mint's services in 2005, in response to customer demand.



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Greg Smith
Executive Director
Numismatics

Peter J. Ho
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Foreign Circulation

David Madge
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Bullion and Refinery

Management's discussion and analysis

Corporate overview

The Royal Canadian Mint is a commercial Crown corporation responsible for the production of all circulation coins used in Canada and for the management of the supporting distribution system. The Mint is one of the world's foremost producers of circulation, numismatic and bullion investment coins. It also has a large gold refinery.

The Mint operates along four business lines. The activities of those businesses are:

- Manufacture and distribute circulation coins to meet the needs of the Canadian marketplace;
- Design and manufacture numismatic coins and retail products for sale to collectors and gift-givers;
- Manufacture circulation and non-circulation coin products for countries around the world;
- Produce bullion coins and wafers for the investment community. Market refinery services to Canadian and international customers.

Vision: The Mint's vision is to be the global leader in minting through people, innovation and quality.

Values: The Mint's values include trust, respect, ingenuity and participation. These values guide and drive corporate behavior to achieve global leadership in minting.

Corporate objectives

The following corporate objectives support the corporation's vision to be the global leader in minting:

1) Ensure that Canadian circulation coins are cost effective and available to meet public needs. The Mint is also responsible for the adequacy and distribution of supply of Canadian coins.
2) Generate a profit to maintain the long-term viability of the corporation and provide a reasonable return to the shareholder through seigniorage or dividends.
3) Create an environment where all employees demonstrate trust, respect, ingenuity, participation and celebration, and work towards the vision of the Mint as the global leader in minting.

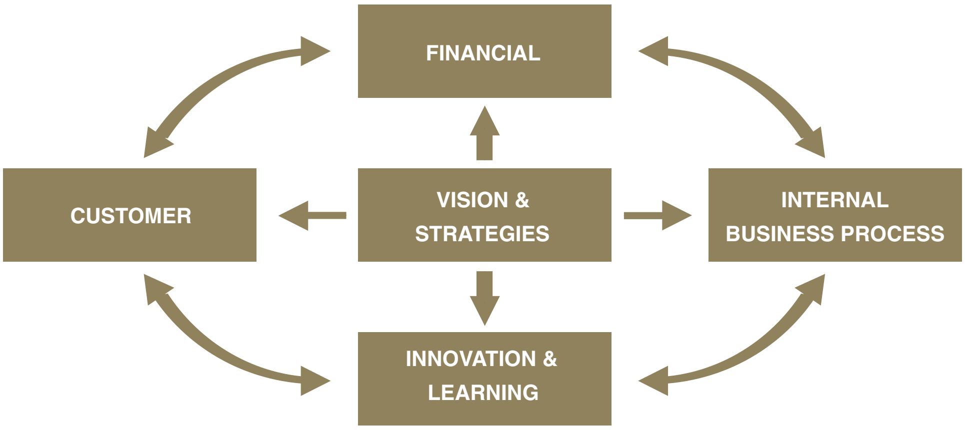
The Mint is planning for sustained growth in revenues to $1.1 billion by 2009. It is expected the Mint will be profitable and continue to deliver seigniorage to its shareholder, the Government of Canada, throughout the planning period of 2005 to 2009.

Consolidated performance indicators

The goal of establishing a *Lean* enterprise is to deliver results that can be measured through reduced lead times, increased profitability, reduced inventory, reduced costs and the creation of a solid operating and financial foundation for growth.

Management's discussion and analysis

These results are also measured through traditional financial targets from the perspective of its shareholder, the government of Canada, as well as the customer, internal business processes, innovation and learning. All are critical to the corporation's future growth.



Shareholder: From the shareholder's perspective, the Mint uses the following metrics to measure its performance:

- Improvement in return on equity,
- Improvement in product margin,
- Return of seigniorage.

Customers: The following metrics are used to measure the Mint's ability to influence customer satisfaction and purchasing behaviour:

- On-time delivery,
- Customer satisfaction. This has been measured every other year.

Internal business processes: To measure its performance from an internal perspective, the Mint has identified the following performance measures:

- Safety incident index with frequency and severity of accidents to be measured throughout the year. The Mint has a zero tolerance policy.
- Cycle time, a measurement that reflects improved management of inventories.

Performance measures: The Mint uses the following measures to monitor capacity to improve and create value:

Performance measures	2003	2004	(estimate) **2005**
Pre-tax return on equity from continued operations	0.6%	17%	**15%**
Contribution margin as a % of revenues	21%	22%	**22%**
Return of seigniorage ($ millions)	$ 28	$ 64	**$ 43**
Value added sales revenue per employee ($000's)	$ 67	$ 154	**$ 220**
Percentage of contribution margin from new products	29%	44%	**47%**
Investment in training	3%	3%	**3%**

Corporate strategies

In addition to the development of a *Lean* enterprise and the implementation of individual business line strategies, we are pursuing the following corporate strategies of benefit to every business line:

- Close partnerships are being developed with key steel and alloy suppliers to provide improved pricing and delivery. Metal represents 80% to 90% of the cost of the Mint's products and strong metal supplier relationships are critical. The steel industry, in particular, is in a state of transition and the availability and pricing of steel continues to be a challenge. In line with Lean, the Mint's supply base has been reduced by more than 60% and on-going supplier reviews will ensure that long-term relationships exist with the suppliers who provide the best service and delivery.
- Key functions within the Mint are being identified and successors developed in advance of the departure of key employees.
- Training in new technologies and processes that accelerate throughput time, improve quality, and reduce inventory and costs is being provided enterprise-wide to ensure the requisite skills are in place to meet increasing competitive pressures.
- As part of the ISO 9001-2000 re-certification, a continuous improvement program continues to look at opportunities to further promote *Lean* in the organization.
- Improvements to the Mint's integrated product development process continue using the leading edge 3-D design tools implemented in 2004.
- Investments in new systems and reporting tools are being implemented to ensure comprehensive and timely information is available. This is essential to improved performance measurement.

Management's discussion and analysis

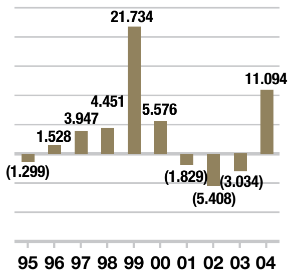
Explanation of corporate results

During 2003, the Mint reorganized its operational framework along four business lines and realigned its focus on its customers. After two years of losses, the focus was on financial stability. This re-orientation of resources included an on-going change within the Mint to a *Lean* Enterprise culture.

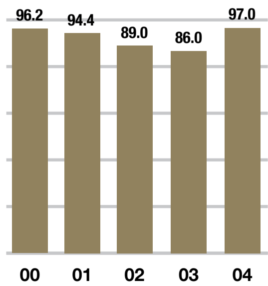
In 2004, this transformation led the Mint to deliver revenue of $324.2 million and net income of $11.1 million, one of the largest year-over-year increases in its history. The year was marked by sales of new products that significantly exceeded expectations; steady sales of the Mint's traditional products; and significant improvements in productivity throughout the Mint's facilities:

- Strong demand for Canadian circulation coins pushed production to 1.4 billion pieces, a 25% increase over 2003.
- Continued geopolitical and economic uncertainty pushed sales of gold bullion products to 285,800 ounces from 237,600 ounces in 2003.
- Of the 50 numismatic coins launched in 2004, 18 sold out within months of issue. In 2003, six of 37 coins launched sold out.
- Shipments of foreign blanks and coins increased 156% to 676.7 million pieces from 260.8 million in 2003 as the foreign circulation team secured contracts from 10 countries compared to seven countries in 2003. Revenue rose 326% to $24.3 million in 2004 from $5.7 million in 2003.
- The volume of gold refined increased 43% to 4.0 million ounces from 2.8 million ounces in 2003.

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



Shareholder's equity
($ in millions)

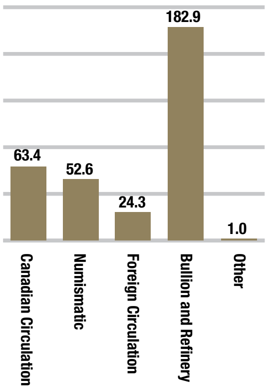


Outlook

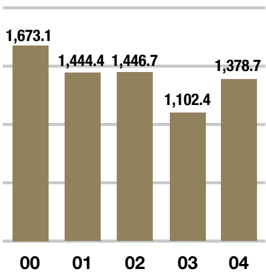
As an international business operating in the private sector, the Mint is subject to a multitude of economic factors, including fluctuations in exchange rates and precious metal prices as well as intense competition from the mints operated by other governments. The health of the Canadian, U.S., and global economies have a significant effect on the performance of the Mint.

Current 2005 forecasts of economic growth and rising gold and silver prices provide reasonable assurance that the external environment will support the Mint's agenda for continued profitability in 2005. The Mint is now profitable and planning for growth that will culminate in $1.1 billion in revenues by 2009 and continued seigniorage for the Government of Canada.

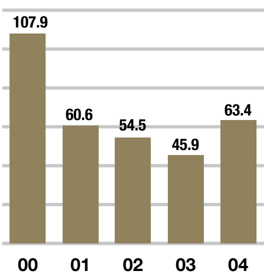
Gross operating revenue by business segment
($ in millions)



Canadian circulation coin production
(millions of pieces)



Canadian circulation coin revenue ($ in millions)



Business segment results

Canadian Circulation

Canadian circulation coinage is the core business line of the Royal Canadian Mint. The Mint is responsible for:

- Providing Canadians with high quality, cost effective coins for use in trade and commerce;
- Ensuring an adequate supply of coins in the correct denominations throughout Canada. This includes forecasting demand and managing the inventories and distribution of coins;
- Promoting awareness of people, places and events of importance in Canadian history

To fulfill those responsibilities, the Mint:

- Monitors the demand for coins and the impact of e-cash and recycling,
- Identifies opportunities for the Government to reduce the cost of coins, and
- Manages 11 regional coin pool sites connected by an online reporting system to ensure adequate distribution of coins in all parts of the country.

Strategic plan objective: The goal of the Mint's Canadian circulation operations is to increase seigniorage revenue for the Government of Canada through the sale of circulation coins; reclaiming and selling the alloy in pre-2001 coinage; and reducing costs through *Lean* initiatives. Seigniorage is the difference between the face value of a coin and its cost of manufacture and distribution. Efforts by the Mint to increase the demand for coins or reduce costs will increase seigniorage. Since 1987, the Mint has generated more that $1.7 billion in seigniorage for the Government of Canada.

Summary of results: Revenue from Canadian circulation coins increased 38% to $63.4 million from $45.9 million in 2003. Volume increased 25% to 1,378.7 million pieces from 1,102.4 million pieces in 2003. The increased revenues resulted in a 129% increase in seigniorage to $64.3 million in 2004 compared to $28 million in 2003.

Explanation of results: Demand for the Mint's circulation coins is driven by the state of the economy, trends in the marketplace, the ability of the Mint to produce coins that capture the imagination of Canadians and the effectiveness of its sales and marketing efforts. In 2004, the economy of Canada has significantly improved over 2003 when the outbreak of severe acute respiratory syndrome, SARS, seriously affected Toronto, the region that traditionally consumes the most coins in Canada.

Management's discussion and analysis

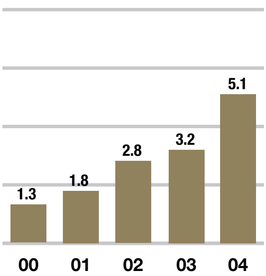
- In 2004, demand for circulation coins increased by 25% on average, with much stronger growth in demand for coins of higher denominations. Production of the 25-cent piece increased by 152% while demand for the $1 coin increased by 94%, compared to 2003.
- An improved economy was not the only factor driving improved demand. In 2004, the Mint issued three coins in the first year of a multi-year program celebrating the themes of Canadian heroes and provincial and historical events. The 25-cent L'Acadie coin celebrated the 400th anniversary of the first French settlement in North America. A second coin, the Lucky Loonie was a talisman for Canadian sporting success. The Mint, a supporter of the Canadian Olympic Team, offered a collector version of the coin to each Olympic team member as their own good luck charm at the Athens Summer Olympics. To share the Lucky Loonie with all Canadians, the Mint partnered with the RBC Financial Group to make the coin available at all RBC branches across Canada. The final special circulation coin offered in 2004 was the coloured 25-cent Poppy coin, the world's only coloured circulation coin and a technological first. To ensure the coin reached Canadians across the country during the weeks surrounding Remembrance Day, the Poppy coin was circulated through our valued partner, Tim Hortons.
- The Winnipeg facility opted out of an expired agreement with an outside supplier to roll and wrap finished coins, moving the process in-house for strategic vertical integration purposes.
- Plating capacity in Winnipeg was increased by 10% through reductions in time required for maintenance and improved efficiencies in processes such as testing and annealing. Other changes, such as changes in the dimension of steel coils purchased and carbon reductions, reduced waste and improved efficiency.
- An alloy recovery program was introduced in 2003. Under this program all coins minted prior 2001 are melted and the alloy recovered sent for sale to a metal dealer. The coins are replaced with newly minted multi-ply coins. Revenue from the program reached $8 million in 2004, contributing $5.4 million to operating income. This process also reduces the number of solid alloy coins in the marketplace, facilitating the acceptance and processing of coin-driven vending mechanisms.
- A coin recycling pilot project launched in 2003 is still under evaluation. This project, in cooperation with a third party, encouraged Canadians to recycle coins that have been taken out of circulation simply by being stored in homes. Under the pilot project, Canadians could drop the coins into a self-service counting machine at a local grocery store in exchange for a voucher. Under the project, the Mint will reclaim older coins and re-release newer coins into the distribution system. The program gives the Mint better control over the inventory of coins in the Canadian market while reducing the need to produce new coins.

Outlook: In anticipation of a strong domestic demand in 2005 the Mint will expand the capacity of the plating facility in Winnipeg from 3,000 metric tons to 6,000 metric tons and extend its capabilities to produce yellow coins. This will make it possible for the facility to produce the blank for the $1 Canadian coin in a more cost effective manner. The expanded capacity will also be used to meet increased demand from foreign governments.

Numismatic

Two distinct, intensely competitive markets were the focus of the numismatic coin division in 2004, numismatists and gift givers. Canadian numismatic products celebrate Canada's diverse culture, rich history, natural splendor and national achievements with original coin designs created by Canadian artists.

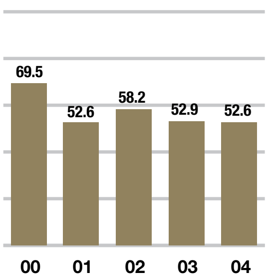
Web sales revenue
($ in millions)



Of the two markets to which the Mint's products are sold, the numismatic market represents the majority of revenue and contribution margin. The Mint sells numismatic coins as annual sets, series and specialty coins using precious metals, such as gold and silver, as well as base metals. Special effects are created with holograms, selective plating and lasers to ensure that the coins reflect the quality and innovation for which the Mint brand is recognized.

The Mint's consumer gift business represents a smaller component of revenue and profit, but is developing. The buyers of these products are seeking unique gift items that celebrate and commemorate a special occasion such as a marriage, birth of a baby or graduation. The Mint is expanding both the format of the products and the occasions for which they can be purchased. In 2005, new sets will be issued for birthdays and holidays.

Canadian numismatic revenues ($ in millions)



Strategic plan objective: There are two core strategic objectives for the Mint's numismatic business. First, expand the volume of sales to collectors who buy the Mint's products today while expanding our customer base to include non-coin collectors. Enhancing the secondary market value of our coins supports this objective. Second, encourage purchases among consumers interested in coin related products as gifts for family, friends and colleagues. Efforts to reduce product "time to market" through *Lean* initiatives will continue in 2005.

Summary of results: Numismatic revenues decreased 1% to $52.6 million from $52.9 million in 2003. The sale of traditional core numismatic products, such as proof sets, decreased by 154%. The sale of new and special edition coins decreased slightly by 9%. Consumer gift revenue increased 100% to $5.6 million from $2.8 million in 2003.

Explanation of results: Recognizing that the perceived value of a numismatic coin depends upon its scarcity as well as its artistic merit, the Mint limited the mintage of its coins to position every coin to sell out; select products were even produced to match orders received prior to manufacture. This not only creates an urgency to collect, it improves the value of the coin in the secondary market, reduces the Mint's inventories and improves relationships with dealers and distributors. In August 2004, the Mint further enhanced its policy of protecting secondary market values by announcing that it would not sell any numismatic product for more than 365 days. It destroyed all numismatic inventory that had been produced prior to August 2003, and continued to destroy aged inventory every month. This ensures the scarcity of all Mint numismatic products and enhances their investment and numismatic merit.

By focusing on the core values of the collector and producing only coins with designs based on well researched themes, the Mint sold out 18 of the 50 products issued in 2004 within 60 to 90 days. In 2003, the Mint sold-out only six of 37 products.

Among the new products issued were:

- The Île Sainte-Croix coins and stamps set. This set commemorates the 400th anniversary of the settlement at Île Sainte-Croix and was produced in collaboration with Canada Post, La Monnaie de Paris and France's La Poste. This exclusive set includes two silver coins, each featuring a fleur-de-lis privy mark, and four commemorative postage stamps (two mint condition and two cancelled);
- The sterling silver five-cent collector coin commemorating the 60th anniversary of D-Day. The coin reprises the Tombac five-cent coin issued during the war years and features the legendary 1942 Torch and V design.
- The 50-cent sterling silver coin set. Each coin in this set features one of the historic effigies of Her Majesty Queen Elizabeth II with the Coat of Arms as it appeared when each new effigy was introduced; and
- The $20 silver hologram coin. The 2004 coin was called Iceberg and was part of the Natural Wonders series. This sold-out coin featured a combination of hologram imagery on a 99.99% pure silver coin.

To build sales of products sold into the consumer gift market, the marketing and sales team repackaged the gift collections to appeal to a broader market. More retail channels are being developed and current retail partners are being involved in the design and packaging of products.

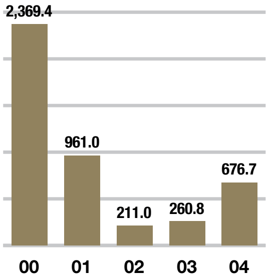
Outlook: With growing awareness of reduced mintages and increased sell-outs, the Mint's products will become increasingly desirable and the urgency to buy them before they sell out will become more intense. This will allow the Mint to expand the variety of coins that it produces for various consumer segments. In 2005, the Mint will launch a theme that will have coast-to-coast appeal with deep emotional roots in the collective Canadian psyche.

Within the gift market, growth will depend upon the development of appealing products and the establishment of partnerships for distribution with retail entities.

Foreign Circulation

The Mint designs and mints foreign circulation coinage and blanks, foreign numismatic coins and precious metal blanks, and foreign tokens. It also sells coin production tooling and consulting services to customers—usually governments—around the world.

Foreign circulation coins sold (millions of pieces)

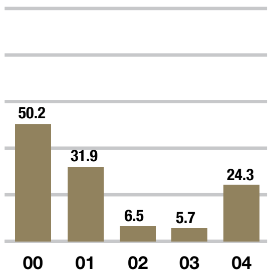


Strategic plan objective: The Mint's state-of-the-art multi-ply plating facility in Winnipeg has the ability to produce high quality, low cost multi-ply circulation coins. The multi-ply technology offers many technical advantages over our competitors' single-ply solution. Furthermore, the multi-ply, multi-layering process allows customization of the electronic magnetic signature for additional security against unwanted imports or slugs, a product attribute unique to the Mint's process.

As the price of metals traditionally used in coins—nickel and copper—continues to increase, the Mint's technology becomes increasingly more cost effective for many foreign countries. In 2004, the Mint launched an aggressive sales and marketing strategy to re-establish our presence in the foreign markets and demonstrate our multi-ply technology as a superior solution for their circulation coin needs both technologically and financially.

Foreign circulation revenue* ($ in millions)

** excluding numismatic*



Summary of results: The Mint produced coins and blanks for 10 countries in 2004, compared to seven in 2003, with volumes increasing by 159% to 676.7 million pieces from 260 million in 2003. Revenues increased 326% to $24.3 million from $5.7 million in 2003, reflecting the varying mix of size and alloy of coins produced and volume increases.

Explanation of results: Competition in the global minting industry is intense with more than 100 competitors in the market place. Although, these competitors have vastly different capabilities, the Royal Canadian Mint is one of the premier mints in the world. Over the past year it has been able to re-establish traditional customer relationships while demonstrating the effectiveness of its technology.

Outlook: The sharp increase in nickel and copper pricing has eroded seigniorage—in many countries the cost of coins exceeds their face value—forcing central banks to seek out low cost alternatives. Many countries are becoming increasingly aware of potential savings by moving from the traditional alloy coins to a plated solution. Sales of foreign circulation coins are expected to continue to increase as the price of alloys continues to increase.

Management's discussion and analysis

Bullion and Refinery

The Mint produces and markets a family of gold and silver bullion coins and gold wafers. It has also operated a refinery since 1911. Today the refinery has a production capacity of 4.2 million troy ounces per year to refine and recast gold for Canadian and foreign customers, both private and government. The refinery offers an integrated solution to gold processing for customers from peerless refining quality through to state-of-the-art assay capabilities and secure storage.

The Mint's breadth of services and capabilities allows the Mint to offer integrated solutions for all of its customers. The Mint brand is a hallmark of honesty and service, derived in part from its Crown corporation status, providing customers with financial security and a high standard of ethics and governance.

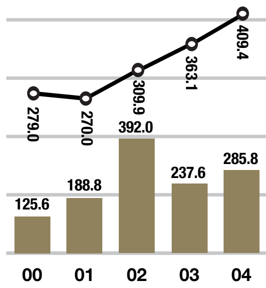
Strategic plan objective: The Mint is a recognized leader in refining for both the quality and speed of service provided to customers. The Mint's refinery is one of the few in the world capable of refining to .99999 purity.

The Mint is adopting a series of strategies to ambitiously grow the refining and bullion business including:

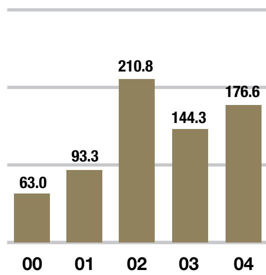
- More aggressive building and maintenance of strategic relationships within the industry to increase loyalty and reliance upon the Mint's unique products and services;
- Provide unique bullion products and faster service times that will help distributors to grow their businesses and maintain excitement in the marketplace. This includes new privy mark coins, a palladium bullion coin and new packaging;
- Enhance the investment value and ease of acquisition of Mint products through new channels of distribution, such as the internet;
- Use *lean* initiatives to reduce product delivery lead times and increase throughputs to meet customer demand in a more timely fashion;
- Introduce new refinery products and services, such as silver refining and an expanded storage program, allowing the Mint to serve its existing clients more efficiently and broaden the scope of clients that it can attract in the future.

Summary of results: Bullion and refinery revenues increased to $182.9 million from $147.4 million in 2003 with increased Gold and Silver Maple Leaf sales, higher precious metals prices and increased refinery volumes. The Mint sold 285,800 ounces of gold bullion coins, wafers and bars in 2004, an increase of 20% from sales of 237,600 ounces in 2003. Silver Maple Leaf sales decreased 1% to 680,920 ounces from 684,750 ounces in 2003. The volume of gold refined increased 46% to 4.1 million ounces from 2.8 million ounces in 2003.

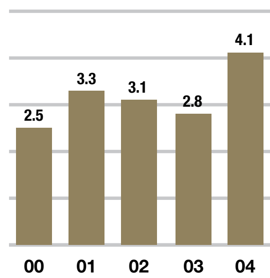
Sales of gold bullion products
(thousands of ounces)
Average price of gold
(US$ per ounce)



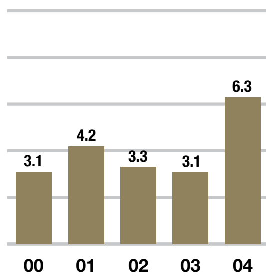
Bullion product revenue
($ in millions)



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



Refining services revenue
($ in millions)



Explanation of results: Demand for bullion has improved steadily since 2001, but was particularly strong in 2004, driven by weak returns in the capital markets and the decrease in the value of the U.S. dollar, which causes the price of gold to decline in local currencies. At the same time, geopolitical turmoil and economic uncertainty continues to drive investors to tangible assets. The continuing decline in hedging by gold producers has also contributed to the increase in the price of gold during the year, driving the price to a high of $559.74 CDN per ounce during the year.

To increase visibility in the market place, members of the Mint's senior management team participated in customer visits and three industry conferences: the International Precious Metals Institute, the London Bullion Market Association and the American Numismatic Association. The Mint also held two meetings of the Mint's major bullion coin distributors in North America and Japan. Market demand for the Mint's bullion was enhanced by the publicity surrounding the 25th anniversary of the introduction of the GML in 1979. The occasion was commemorated with a change in the design of the coin, the first since the coin was launched. The new design was unveiled during the World's Fair of Money in Pittsburgh, Pennsylvania by Mint President and CEO David Dingwall and Barrick Gold Corporation Chairman and founder Peter Monk. The commemorative design heightened awareness of the GML in both numismatic and investor markets.

Early in 2004, the Mint introduced *lean* manufacturing to the refinery operations, mapping customer needs and operating processes. Within the Refinery, processing speed was identified as a customer priority. The standard industry turnaround time from receipt of a customer's material to the shipment of refined gold is 10 days; the Mint reduced its processing time to five days. In Bullion, *lean* manufacturing was used to analyze ordering patterns, which led to the development of "supermarkets" of coins, blanks and bars. This allowed the Mint to fill customer orders on schedule while reducing inventories of bullion coins by 75%.

In 2004, the Mint began to provide storage services to institutional customers. The exceptional security that is inherent to the Mint's corporate requirements and competitive pricing allowed the Mint to surpass the targets established for the new program.

Management's discussion and analysis

Outlook: The Royal Canadian Mint will continue to build and maintain long term strategic relationships within the industry to increase loyalty and reliance on Mint products. The Mint will also provide unique bullion product offerings and superior service that enable distributors to grow their business and maintain excitement in the marketplace.

The outlook is cautiously optimistic for 2005. In Refinery, silver refining will be added to the suite of services offered by the Mint. For Bullion, the state of the economy combined with continued geopolitical turmoil, trends in precious metals prices and continued devaluation of the U.S. dollar is expected to cause demand for gold bullion to remain strong.

Other

In 2001, the Mint launched a strategy aimed at developing new business opportunities and diversifying its revenue base. As part of this business development initiative, the Mint established a wholly-owned subsidiary, RCMH-MRCF Inc.

Through RCMH-MRCF, the Mint formed a joint venture with Travelway Group International Inc. (TGI) in 2002 under which RCHM-MRCF owns 50% of the new company, TGM Specialty Services Inc. (TGM). TGM provides packaging products and services to domestic and international markets, including turnkey customer solutions that include assembly, distribution and retail management expertise. The corporate joint venture reflects the Mint's intention to expand through vertical integration and tactical alliances and take advantage of lucrative markets that are natural extensions to the Mint's product lines.

The Mint also produces medals, medallions and tokens. The Mint is a leader in a select group of high quality suppliers of medals. When the customer demands quality and brand, the Mint remains a supplier of choice. Maintaining leadership in this business will continue to be a strategic objective. The strategies developed to promote growth in the medallion, medal and tokens business include:

- Producing and holding a quantity of blanks in a variety of sizes and alloys, allowing the Mint to provide competitive quotes and rapid delivery of final product
- Increase the Mint's sales presence in North America by targeting select industries as well as consumer brand manufacturers, premium incentive houses, employee recognition companies, entertainment venues and sports associations
- Implement more aggressive marketing initiatives such as the direct mail campaigns and industry publication advertising

Consolidated financial performance

The Mint's net income for the year was $11.1 million compared to a net loss of $3.0 million in 2003. The key factors behind the year's results include:

- Revenue increased 27% to $324.2 million from $254.7 million in 2003. Revenue increased in most business lines: Canadian circulation 38%, foreign circulation 326% and bullion and refinery 24%, with a slight decrease in numismatics of 1%.
- Operating costs, including cost of goods sold and the costs of marketing, administration and depreciation increased by 21% to $306.2 million from $252.4 million in 2003. Cost of goods sold, which represents 82% of total operating costs, increased 26% to $252.2 million from $200.2 million in 2003. This increase reflects the increased volume of bullion wafers and coins, numismatic coins, Canadian and Foreign circulation coinage and refinery deposits.
- Administrative costs increased 5% to $22.0 million from $21.0 million in 2003. Administrative costs as a percentage of revenue decreased to 7% from 8% in 2003.
- Income from continuing operations before income tax increased to $16 million from $0.5 million in 2003. Gross profit margin increased to 22% from 21% in 2003. The increase in the Mint's operating income reflects the substantial increase in revenue and the determination to restrain costs and improve productivity.
- Interest income increased to $618,000 from $575,000 in 2003. Interest expense was $1.4 million compared to $1.8 million in 2003. Interest expense relates primarily to the debt for the plating facility.

In support of the business strategies

Marketing and Sales

In 2004, Marketing and Sales costs increased 14% to $23.2 million compared to $20.3 million in 2003. The Marketing and Sales team undertook a number of projects to support and drive the substantially improved corporate performance. Initiatives during 2004 include:

- Standard packaging developed in 2004, will be fully introduced in 2005, reducing costs while enhancing productivity and brand recognition.
- An update to the appearance of the website and continued expansion in the number of customers contained in the Mint's direct marketing database. Sales through the website increased by 59% to $5.1 million from $3.2 million in 2003. In early 2005, the Mint will launch a new website that will enhance its ability to interact with retail consumers, business partners and refinery customers.

- Novel packaging for the Lucky Loonie and Poppy coin for distribution through retail outlets as well as dealers and distributors of numismatic products.
- The establishment of a relationship with Tim Hortons to distribute the Poppy coin. This allowed the coin to be distributed to every community across Canada at one time. Under Canada's coin distribution system, coins are released in each region as required.
- Continued customer research to develop themes that resonate with Canadians and improve the Mint's understanding of coin collecting.
- More effective designs for the O Canada and Tiny Treasure gift sets. New designs, lower prices and expanded distribution channels increased sales by 71% in 2004; new products and continued expansion in distribution channels are expected to continue to drive sales growth in 2005.

Information Technology

The information technology (IT) department provides day-to-day technical support for the Mint's computing and communication systems and implements new technologies and applications. With the Mint's shift in focus from attaining profitability to ambitious growth, responsiveness became a priority. In 2004, the Mint began to implement the Product Lifecycle Management (PLM) project.

The PLM project is designed to give the Mint a sophisticated technological capability that integrates four critical components: three-dimensional modeling, virtual sculpting, knowledge management and automation of work flow between departments and processes. In 2004, 3D design and rendering tools were introduced to engraving and engineering teams to reduce time to market by alleviating the reliance on physical prototypes and trials and providing a virtual showcase for product designs. Incorporated into PLM is SmarTeam, a tool that enables collaboration and efficient workflow, a relational database and knowledge management from the development of a quote for a potential customer to the design, manufacture, marketing and shipment of the final product.

It is anticipated that PLM will result in annual savings of approximately $400,000 while improving transparency, accountability and collaborative teamwork. It will also significantly decrease the time required to bring a new product to market, a critical factor in the ultimate success of new products and the Mint's ability to capture sales, particularly contracts for foreign circulation coins.

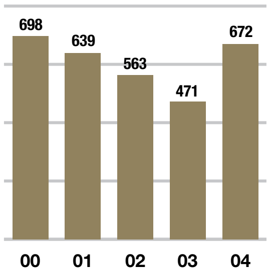
Enhancements to the Mint's web-based Canadian coin distribution system that were initiated in 2004 will continue in 2005. This system is designed to improve forecasting and the exchange of information between the Mint and the financial institutions that distribute Canada's coinage.

Human Resources management and Lean Enterprise

The Human Resources and Lean Enterprise division focuses on ensuring the Mint can meet its goals through recruitment, training, employee relations, organizational development and pay and benefits activities and programs. It also manages quality systems using the ISO 9001:2000 international standards to continuously improve the corporation's performance and process capabilities.

Employment at the Mint increased to 672 persons by the end of 2004 compared to 471 persons at the end of 2003, including permanent and temporary employees. Wages and benefits increased to $39.9 million from $30.9 million in 2003. The increase reflects the increase in demand for the Mint's products and services and the implementation of new or special programs such as the roll-and-wrap function and alloy recovery program in Winnipeg.

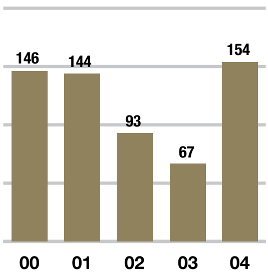
Number of employees
(at December 31)



Spending on skills development increased to $0.55 million from $0.4 million in 2003. Programs focused on the continued implementation of the Mint's succession program and the training of new employees hired to meet increased demand.

Lean is not a job reduction strategy; it is about reducing wasteful activity and refocusing those resources on increased productivity and growth. In fact, the growth in the Mint's business has resulted in more jobs and employment opportunities. One key objective is to create an environment that will again cause our employees to believe the Mint to be one of *The Globe and Mail's 50 Best Companies to Work for in Canada.*

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



Health, Safety, Security and Environment

Protection of the environment and people is one of our fundamental priorities; it is a core responsibility of The Mint and every employee. The Health, Safety, Security and Environment (HSSE) department provides direction and recommendations to the operating divisions and facility management staff to ensure operations are in compliance with health, safety and environmental legislation. The HSSE department is also responsible for security services and the protection of corporate assets.

Through the adoption and implementation of *Lean* enterprise principals and best management practices, the Royal Canadian Mint is committed to becoming an industry leader in the protection of the environment and its employees. In 2004, the corporate accident frequency rate decreased to 2.2 from 2.6 in 2003. The Mint will continue to strive to reduce and ultimately eliminate accidents and injuries from the workplace.

During the year, we formed an agreement with Human Resource and Skills Development Canada (HRSDC) to participate in the National Intervention Model, a new health and safety management initiative. The Mint's established health and safety programs made it a key candidate for the program; our participation will benefit HRSDC and the Mint. It will also enhance our focus on improving the safety of our operations and the health of our employees.

Management's discussion and analysis

Legislation and regulations concerning work place environment, health and safety continue to evolve. New legislation is pending to protect the environment, including new rules aimed at reducing toxic substances and greenhouse gases along with stricter controls on water quality. In anticipation of these regulatory changes, the Mint strives to eliminate or reduce the use of hazardous substances. Initiatives undertaken in 2004 include:

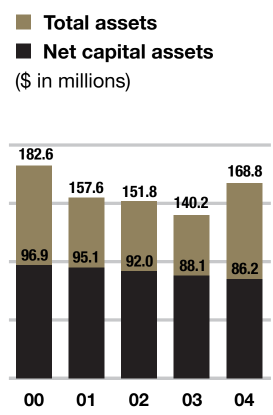
- Completion of a feasibility study and specification design project to reduce the volume of sludge generated from the wastewater treatment system at the Winnipeg facility. It is anticipated that this process enhancement will reduce the sludge generated in the plant by more than 50%. The project will be implemented in 2005 as part of the plant expansion.
- Introduction of a new tooling die coating technology in 2004 to replace the existing chrome plating operation used in Ottawa. Final trials of the equipment will be completed in 2005 and it is anticipated the chrome plating process will be decommissioned. This initiative will eliminate hexavalent chrome use at the Mint through the introduction of a clean die coating process that does not generate waste.

In keeping with the heightened awareness created by Bill C45 and other new health & safety and environmental legislation, the Mint plans to re-develop its environmental and health and safety management system in 2005 and 2006.

The Mint continuously assesses and mitigates security risks through a dedicated security management group; highly trained and experienced security officers; the installation, monitoring and maintenance of modern security equipment and controls measures; and the establishment and refinement of secure operating procedures. In 2004, the Mint established a cross-functional Security Steering Committee of directors from various operating and support departments at the Mint. During 2005, the Mint will conduct a comprehensive threat and risk assessment for it facilities in Ottawa and Winnipeg.

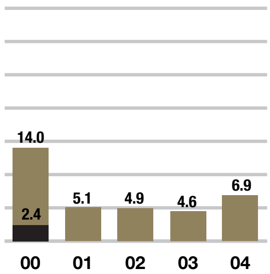
Liquidity and capital resources

At the end of 2004, cash, cash equivalents and short-term investments increased to $31.1 million from $23.5 million at the end of 2003. This increase reflects continued improvement in the management of accounts receivable, inventories and accounts payable. During the year, the Mint funded all its operations and capital investments without short-term borrowing.



Financing: During the planning period, debt was reduced in accordance with planned principal repayment, restoring much of the Mint's $75 million legislated borrowing limit. By December 31, 2004, the Mint had reduced the plating facility debt by $3.1 million to $15.5 million with a scheduled repayment of principal. The Mint also made a scheduled $1.2 million repayment of principal and interest on a 10-year debt due December 2007, reducing the outstanding principal to $3.0 million. At the end of 2004, total outstanding loans declined to $20.0 million. The Mint's debt-to-equity ratio declined to 0.21:1 from 0.29:1 at the end of 2003.

Capital expenditures
($ in millions)
Expenditures
Plating expenditures



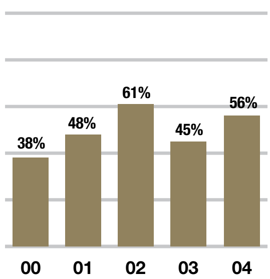
Capital expenditures: Capital expenditures increased 50% to $6.9 million from $4.6 million in 2003. Projects included programmable logic controller upgrades for plating lines, roll and wrap operations, particle measurement equipment and masonry, wall and roof repairs. Information technology projects included infrastructure upgrades in Ottawa and Winnipeg as well as Product Lifecycle (PLM) implementation.

Included in the $6.9 million were projects supporting the Mint's revenue growth and cost containment, including an energy retrofit program in 2005 to improve environmental conditions and to realize savings in building heating and cooling systems. Capital was also required to purchase and install roll and wrap equipment in Winnipeg, equipment for the 2004 coloured Poppy coin, and demonetization equipment used to reduce security costs on coins removed from circulation. The Mint also invested in information technology to improve its e-commerce capabilities and support the Mint's growth plans in business-to-customer and business-to-business markets.

Risks to performance

Precious metal risk: The Mint purchases three precious metals—gold, silver and platinum. These metals are used in the Maple Leaf and numismatic coins. The Mint is not exposed to risk as a result of a change in price in the metals used for the bullion coins and wafers because the purchase and sale of metals used in these products are completed on the same date, using the same price in the same currency. For numismatic products, risk is mitigated through a precious metal risk management program involving forward contracts and options. At the end of 2004, the Mint had firm fixed price purchase commitments in place related to the purchase of 700,000 ounces of silver, and 10,500 ounces of gold for the Mint's numismatic coin program.

Exports sales
as a percentage of
total revenue



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.

Statistics

Table 1—Canadian circulation coinage

Production in 2002, 2003 and 2004 [1]

	2004 Total Pieces	2003 Total Pieces	2002 Total Pieces
Coinage dated 2001			
$2		–	–
$1		–	–
50¢		–	–
25¢		–	3,620,000
10¢		–	–
5¢		–	6,000
1¢		–	864,000
Coinage dated 2002			
$2		12,000	27,008,000
$1		(1,000)	2,302,000
50¢		–	14,440,000
25¢		4,880,000	183,112,000
10¢		1,285,000	251,278,000
5¢		1,598,000	134,362,000
1¢		325,000	829,715,000
Coinage dated 2003			
$2	**–**	11,244,000	–
$1	**–**	5,102,000	–
50¢	**–**	–	–
25¢	**17,871,000**	82,767,000	–
10¢	**2,218,000**	162,399,000	–
5¢	**9,012,000**	92,781,000	–
1¢	**8,095,000**	740,028,000	–
Coinage dated 2004			
$2	**12,907,000**	–	–
$1	**9,934,000**	–	–
50¢	**–**	–	–
25¢	**203,495,000**	–	–
10¢	**211,925,000**	–	–
5¢	**123,085,000**	–	–
1¢	**780,128,000**	–	–
Total (all dates)			
$2	**12,907,000**	11,256,000	27,008,000
$1	**9,934,000**	5,101,000	2,302,000
50¢	**–**	–	14,440,000
25¢	**221,366,000**	87,647,000	186,732,000
10¢	**214,143,000**	163,684,000	251,278,000
5¢	**132,097,000**	94,379,000	134,368,000
1¢	**788,223,000**	740,353,000	830,579,000
Total	**1,378,670,000**	1,102,420,000	1,446,707,000

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

Table 2 – Canadian circulation coinage

Cumulative production up to December 31, 2004 (1) (2)

	2000	2001	2002	2003	**2004**
$2	29,880,000	11,910,000	27,020,000	11,244,000	**12,907,000**
$1	–	–	2,301,000	5,102,000	**9,934,000**
50¢	573,000	389,000	14,440,000	–	**–**
25¢	435,752,000	64,182,000	187,992,000	100,638,000	**203,495,000**
10¢	160,798,000	270,792,000	252,563,000	164,617,000	**211,925,000**
5¢	110,767,000	166,692,000	135,960,000	101,793,000	**123,085,000**
1¢	771,909,000	919,359,000	830,040,000	748,123,000	**780,128,000**

(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 2004 (1) – Geographic distribution (2)

Province City (3)	**$2**	**$1**	**50¢**	**25¢**	**10¢**	**5¢**	**1¢**
Newfoundland							
St. John's	–	449,000	–	518,000	2,042,000	1,616,000	10,783,000
New Brunswick							
Saint John	201,000	345,000	–	1,420,000	2,265,000	1,252,000	7,777,000
Nova Scotia							
Halifax	540,000	109,000	–	3,246,000	8,870,000	5,494,000	55,713,000
Québec							
Montréal	1,953,000	1,931,000	–	51,973,000	53,195,000	33,126,000	142,000,000
Ontario							
Ottawa	2,265,000	1,583,000	–	15,822,000	17,378,000	14,006,000	63,265,000
Toronto	7,994,000	6,563,000	–	2,754,000	49,732,000	38,762,000	275,248,000
Manitoba							
Winnipeg	118,000	962,000	–	1,630,000	7,625,000	3,734,000	36,723,000
Saskatchewan							
Regina	–	79,000	–	450,000	3,785,000	1,928,000	19,860,000
Alberta							
Calgary	106,000	689,000	–	4,154,000	11,815,000	6,586,000	49,933,000
Edmonton	1,267,000	1,732,000	–	6,916,000	17,635,000	10,452,000	71,015,000
British Columbia							
Vancouver	2,648,000	3,538,000	–	14,726,000	35,208,000	23,168,000	129,485,000
Sundry persons (4)	67,000	315,000	12,000	2,437,000	250,000	350,000	1,193,000
Total	**17,159,000**	**18,295,000**	**12,000**	**106,046,000**	**209,800,000**	**140,474,000**	**862,995,000**

(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, 2004 bearing the dates 2003 and 2004 (1)

	2004	2003 (2)
Platinum Proof Coin Set (3)	376	365
.99999 Gold Coin	1,836	1,865
22-Karat Gold Coin	3,699	4,118
14-Karat Gold Coin	7,123	9,993
Silver Lunar Cameo Coin Series	46,182	53,714
Proof Sterling Silver Dollar	81,355	88,536
Proof Sterling Silver Dollar – Coronation	–	29,688
Brilliant Sterling Silver Dollar	41,934	51,130
Proof Set (4)	56,925	62,007
Special Edition Proof Set – Coronation (4)	–	21,537
Specimen Set (5)	44,310	41,640
Uncirculated Set (5)	90,658	94,126
Special Edition Uncirculated Set – New Effigy (5)	–	71,142
Baby Gift Set (5) *	53,136	43,197
Oh Canada ! Uncirculated Gift Set (5)	53,329	51,146
$20 Sterling Silver Hologram cameo Coins (Land, Sea, and Rail Series)	–	31,997
$150 18-Karat Gold Holgram Coin	3,318	3,927
50 cent Sterling Silver Coin (Canadian Festivals Series)	–	26,451
1 Ounce Silver Maple Leaf Coloured Coin	26,848	29,416
1 Ounce Silver Maple Leaf Hologram Coin	–	29,731
1/4 Ounce Gold Maple Leaf Lasered Coin	–	1,000
Golden Daffodil 50-cent Sterling Silver Coin	–	36,293
Niagara Falls $20 Fine Silver Hologram Coin	–	29,967
Rocky Mountains $20 Fine Silver Coloured Coin	–	28,793
Northern Lights $20 Fine Silver Hologram Coin	34,135	–
Hopewell Rocks $20 Fine Silver Gold Plated Coin	16,918	–
Iceberg $20 Fine Silver Hologram Coin	24,879	–
Selective Gold Plated 1 cent (in Annual report)	–	7,746
Coronation 24-Karat Gold Coin	–	1
Golden Jubilee 24-Karat Gold Coin	–	1
Great Seal of Canada 14-Karat Gold Coin	–	998
Queen Elizabeth II Stamp and Coin Set	–	14,743
Silver Maple Leaf Hologram Five Coin Set	–	28,947
25-Cent Coloured Coin (Canada Day 2003, Maple Leaf 2004)	44,759	63,511
FIFA Wold Cup Commemorative $5 Fine Silver Coin	–	19,514
25-Cent Coin (Canada Day)	29,762	–
Easter Lily 50-cent Sterling Silver Coin	23,486	–
Graduation Gift Set (5)	22,751	–
Wedding Gift Set (5)	19,156	–
Official First Day Poppy 25 cent Coin	9,928	–
Sterling Silver Lucky Loonie Coloured Coin	19,941	–
1/25 oz Gold Coin – Canadian Moose	24,991	–
25th Anniversary Gold Maple Leaf Commemorative Coin Set (7)	801	–
Clouded Sulphur 50-cent Sterling Silver Gold plated Coin	15,281	–
Canadian Tiger Swallowtail 50-cent Sterling Silver Hologram Coin	19,910	–
60th Anniversary D-Day Set with 5-Cent Sterling Silver Coin	19,977	–
.9999 Fine Silver Coin Set – Arctic Fox (3)	13,694	–
Holiday Gift Set (5)	60,965	–

Canadian numismatic coinage (continued)

Sambro Island $20 Fine Silver Coin	17,515	–
Special Edition Uncirculated Lucky Loonie	34,234	–
Test Token Set	9,534	–
$300 14-Karat Gold Quadruple Cameo Coin	994	–
$2 Coin and Stamp Set – Polar Bear	25,208	–
$8 Coin and Stamp Set – Grizzly Bear	25,883	–
$1 Coin and Stamp Set – Common Loon	25,105	–
$5 Coin and Stamp Set – Moose	25,553	–
Special Edition Proof Silver Dollar – The Poppy	24,527	–
1 oz Silver Maple Leaf Privymark – D-Day	12,485	–
1 oz Silver Maple Leaf Privymark – Desjardins	15,000	–
Silver Maple Leaf Privymark Set (6)	13,859	–
Ile Sainte-Croix Coins and Stamps Set (8)	8,315	–
Canadian Open 10-Cent, $5 Dollar Fine Silver Coin and Stamps Set (8)	15,623	–
50-Cent Sterling Silver Coin Set – Expressions of Nationhood (3)	11,707	–
Canadian Open Coins, Stamps and Divot Tool Gift Set	16,121	–
	1,194,026	977,240

* Tiny Treasure Uncirculated Gift Set in 2003

(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) Six-coin set.

(8) Two-coin set.

Table 5 – Maple Leaf coinage

Sales in ounces for 2003 and 2004

	2004	2003
Gold Maple Leaf Coinage		
$50 (9999 Au)	**253,978**	194,631
$20 (9999 Au)	**6,580**	11,735
$10 (9999 Au)	**4,574**	5,807
$5 (9999 Au)	**3,348**	2,694
$1 (9999 Au)	**494**	778
Total (ounces)	**268,974**	215,645

Silver Maple Leaf Coinage		
$5 (9999 Ag)	**680,925**	684,750
Total (ounces)	**680,925**	684,750

Statistics

Table 6 – Refinery operations

For 2003 and 2004

	Gross weight (Troy ounces)		Refined gold (9999) produced (Troy ounces) [1]		Refined silver (999) produced (Troy ounces) [2]	
	2004	2003	**2004**	2003	**2004**	2003
Deposits from Canadian Mines						
Québec	**477,109**	220,504	**274,278**	153,204	**141,961**	22,209
Ontario	**522,041**	513,277	**323,558**	368,920	**50,579**	50,902
Total	**999,150**	733,781	**597,836**	522,124	**192,540**	73,111
Deposits from other sources	**3,053,979**	2,105,836	**2,317,764**	1,776,286	**132,844**	133,528
Total	**4,053,129**	2,839,617	**2,915,600**	2,298,410	**325,384**	206,639

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

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

Table 7 – Canadian circulation coinage

Commemorative/regular designs and plated/non-plated coins 2000 – 2004

	2000	2001	2002	2003	**2004**
1-Cent (CPZ)	771,908,206	919,358,000	715,502,000	149,096,000	**645,220,000**
1-Cent (CPS)	–	–	114,212,000	590,931,000	**134,906,000**
5-Cent (N)	105,868,000	30,035,000	–	–	**–**
5-Cent (P)	4,899,000	136,656,000	134,361,000	92,781,000	**123,085,000**
10-Cent (N)	160,798,000	–	–	–	**–**
10-Cent (P)	–	46,265,000	251,278,000	162,398,000	**211,924,000**
10-Cent (IYV) (P)	–	224,714,000	–	–	**–**
25-Cent Caribou (N)	435,751,000	8,415,000	–	–	**–**
25-Cent Caribou (P)		55,773,000	152,484,000	82,766,000	**159,465,000**
25-Cent Canada Day (P)	–	–	30,627,000	–	**–**
25-Cent Poppy	–	–	–	–	**28,500,000**
25-Cent L'Acadie	–	–	–	–	**15,400,000**
One Dollar	–	–	–	–	**3,409,000**
One Dollar – Lucky Loonie	–	–	–	–	**6,526,000**

(CPS) Copper plated steel

(CPZ) Copper plated zinc

(IYV) International Year of Volunteers

(N) Nickel

(P) Plated

Management report

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

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

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

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

David C. Dingwall
President and
Chief Executive Officer

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

Ottawa, Canada
February 25, 2005

Auditor's report

To the Minister of National Revenue

I have audited the consolidated balance sheet of the Royal Canadian Mint as at December 31, 2004 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 31 December 2004 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, except for the change in the method of accounting for derivative financial instruments as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

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

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
February 25, 2005

Consolidated balance sheet

as at December 31 (in thousands of dollars)

	2004	2003
Assets		
Current		
Cash and cash equivalents	$ 21,535	$ 19,378
Short-term investments (note 4)	9,524	4,069
Accounts receivable	31,718	9,735
Prepaid expenses	793	1,333
Inventories (note 5)	18,042	16,388
	81,612	50,903
Deferred charges	918	1,163
Property, plant and equipment (note 6)	86,249	88,095
	$ 168,779	$ 140,161
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 38,661	$ 19,385
Current portion of loans (note 7)	5,302	5,542
Deferred revenues	1,281	875
	45,244	25,802
Long-term		
Deferred revenues	2,384	2,776
Loans (note 7)	14,690	19,000
Future tax liabilities (note 8)	2,521	23
Employee future benefits (note 9)	6,892	6,606
	26,487	28,405
Shareholder's equity		
Share capital		
(authorised and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	57,048	45,954
	97,048	85,954
	$ 168,779	$ 140,161

Commitments and Guarantees (note 12)

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board of Directors

Approved by Management

Emmanuel Triassi
Chairperson,
Board of Directors

David C. Dingwall
President and
Chief Executive Officer

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

Consolidated statement of operations and retained earnings

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

	2004	2003
Revenues	$ 324,206	$ 254,666
Cost of goods sold	252,216	200,170
Gross profit	71,990	54,496
Other operating expenses		
Marketing and Sales	23,213	20,294
Administration	22,029	20,994
Amortization	8,734	8,498
Restructuring (note 13)	–	2,434
	53,976	52,220
Income from operations	18,014	2,276
Net foreign exchange losses	(1,242)	(513)
Interest income	618	575
Interest expense	(1,437)	(1,828)
Income from continuing operations before income tax	15,953	510
Income tax expense (note 8)	(4,859)	(854)
Net income (loss) from continuing operations	11,094	(344)
Net loss from discontinued operations—net of taxes (note 14)	–	(2,690)
Net income (loss)	11,094	(3,034)
Retained earnings, beginning of year	45,954	48,988
Retained earnings, end of year	$ 57,048	$ 45,954

The accompanying notes are an integral part of these statements.

Consolidated cash flow statement

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

	2004	2003
Cash flows from operating activities		
Cash receipts from customers	**$ 302,244**	$ 260,014
Cash paid to suppliers and employees	**(280,007)**	(243,757)
Interest received	**611**	575
Interest paid	**(1,887)**	(1,828)
Income taxes	**(2,361)**	(1,233)
	18,600	13,771
Cash flows from investing activities		
Purchase of short-term investments	**(5,455)**	(950)
Purchase of property, plant and equipment	**(6,888)**	(4,638)
	(12,343)	(5,588)
Cash flows from financing activities		
Repayment of loans	**(4,100)**	(4,598)
Net increase in cash and cash equivalents	**2,157**	3,585
Cash and cash equivalents at the beginning of year	**19,378**	15,793
Cash and cash equivalents at the end of year	**$ 21,535**	$ 19,378
Represented by:		
Cash	**$ 1,933**	$ 1,448
Cash equivalents	**$ 19,602**	$ 17,930

The accompanying notes are an integral part of these statements.

Notes to consolidated financial statements

December 31, 2004

1. Authority and objectives

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

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

2. Summary of significant accounting policies

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

a) Consolidation

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

b) Cash and cash equivalents

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

c) Short-term investments

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

d) Inventories

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

e) Property, plant and equipment

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

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

f) Revenues

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

g) Deferred revenues

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

h) Deferred charges

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

i) Employee future benefits

i) Pension benefits

Employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. The Corporation's contributions are expensed during the year in which the services are rendered. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

ii) Other benefits

Employees are entitled to a severance benefit plan. There is also a supplementary retirement benefit plan for certain employees. These benefits are accrued as the employees render the services necessary to earn them. The cost of the benefits earned by the employees is actuarially determined using the projected benefit method prorated on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions, which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the severance benefit plan is 12 years (2003 – 12 years).

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

The last full actuarial evaluation was done December 31, 2003, and the next one is scheduled for December 31, 2005.

j) Foreign currency translation

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

k) 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.

l) Derivative financial instruments

The Corporation enters into derivative financial instruments such as forward contracts and options to reduce the adverse movements in foreign exchange. The Corporation's policy is not to utilize freestanding derivative financial instruments for trading or speculative purposes.

All designated hedges are formally documented as to the corporation's risk objective and strategy, the specific item being hedged, and the method in which effectiveness is measured. Effectiveness is assessed on an on-going basis as well as at inception to determine whether or not the derivative has been effective in offsetting the specific risk documented.

For derivative financial instruments that qualify as eligible hedges, foreign exchange gains/losses are recognized in same period as the corresponding hedged item using the 'settlement method'. The forward contract will be accounted for as an off-balance sheet item and will only be recognized when the anticipated transaction is consummated or the hedging item is settled, the hedging relationship ceases to be effective or the hedging relationship designation is terminated.

Hedge accounting is discontinued prospectively if the hedge relationship is no longer effective, the derivative financial instrument is no longer designated as an eligible hedge or if the designated-hedged item matures, is sold or is terminated. The derivative financial instrument is then carried at fair value on the Consolidated Balance Sheet as of the date that hedge accounting is discontinued and subsequent changes in fair value are recognized on the Consolidated Statement of Operations and Retained Earnings either as foreign exchange gains or losses.

Any derivative financial instruments held by the Corporation which do not qualify as hedges or is not designated, will be carried at fair value on the Consolidated Balance Sheet, and any changes in the fair value must be charged or credited to the Consolidated Statement of Operations and Retained Earnings.

m) 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. Change in Accounting Policy

Effective November 26, 2004, the Corporation adopted Accounting Guideline 13: *Hedging Relationships* (AcG-13), issued by the Canadian Institute of Chartered Accountants as well as EIC-128: *Accounting for Trading Speculative or Non-Hedging Derivative Financial Instruments.* These guidelines establish certain qualifying conditions for the use of hedge accounting which are more stringent and formalized than prior standards. This change in accounting policy has been applied prospectively.

Certain foreign exchange contracts were not designated as hedges by the Corporation on their date of inception. These contracts were carried as non-hedging financial derivatives on the balance sheet until they were designated as hedges on November 26, 2004. The Corporation calculated the fair value of these forward contracts using forward rates and recognized the gains/losses in the period prior to the contracts being formally designated as hedges. As well, the forward contracts' fair values at November 26, 2004 have been recorded on the Consolidated Balance Sheet. For these forward contracts, a foreign exchange loss of $0.5 million was recorded to reflect the change in fair value up to November 26, 2004. This amount will be reversed at the settlement of the related hedged item in 2005.

The remaining fair value changes on the hedging item calculated between the date of designation of the hedging relationship and the purchase or sale date of the hedged item will be adjusted against the anticipated transaction value when the related purchase or sale occurs.

4. 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 Poor's. The investment vehicles consist primarily of commercial paper. The overall portfolio yield as at December 31, 2004 was 2.66% (2003 was 2.84%) and the average term to maturity is 97 days (2003 was 97 days). The fair market value of the investment portfolio at year-end approximates the book value.

Notes to consolidated financial statements

December 31, 2004

5. Inventories

(in thousands of dollars)

	2004	2003
Raw materials and supplies	**$ 7,188**	$ 9,323
Work in process	**6,537**	4,905
Finished goods	**4,317**	2,160
	$ 18,042	$ 16,388

6. Property, plant and equipment

(in thousands of dollars)

	Cost	Accumulated Amortization	**2004 Net Book Value**	2003 Net Book Value
Land	$ 3,226	$ –	**$ 3,226**	$ 3,226
Land improvements	914	767	**147**	169
Buildings	77,728	27,148	**50,580**	50,729
Equipment	85,103	58,219	**26,884**	29,136
Hardware and software	15,681	10,269	**5,412**	4,835
	$ 182,652	$ 96,403	**$ 86,249**	$ 88,095

7. Loans

(in thousands of dollars)

	2004	2003
10-year loan due December 2007, bearing interest at 5.840% calculated semi-annually with the principal repayable in ten equal annual instalments commencing December 1998	**$ 3,000**	$ 4,000
Amortizing bond with two-year interest holiday maturing December 2009, semi-annual coupon at 7.753% starting June 2000 with principal repayable in ten equal instalments commencing December 2000	**15,500**	18,600
Accrued interest on bond	**1,492**	1,942
	19,992	24,542
Less the current portion of loans	**5,302**	5,542
	$ 14,690	$ 19,000

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

8. Income taxes

(in thousands of dollars)

	2004	2003
Income tax expense	$ 2,361	$ 281
Future tax expense	2,498	573
	$ 4,859	$ 854

Income tax expense on income from continuing operations differs from the amount that would be computed by applying the Federal statutory income tax rate of 32.52% (2003 – 34.52%) to income from continuing operations before income tax. The reasons for the differences are as follows:

	2004	2003
Computed tax expense	$ 5,188	$ 176
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	–	(34)
Change in valuation allowance	(441)	–
Large Corporation Tax	15	206
Other net amounts	97	506
	$ 4,859	$ 854

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities in 2004 and 2003 are presented below:

	2004	2003
Future tax assets		
Loss carry-forwards	$ –	$ 2,830
Employee future benefits	2,340	2,332
Inventories	402	454
	2,742	5,616
Less the valuation allowance	–	(441)
	2,742	5,175
Future tax liability		
Capital assets	(5,062)	(5,198)
Investment tax credits	(201)	–
	(5,263)	(5,198)
Future tax liabilities	$ (2,521)	$ (23)

9. Employee future benefits

i) Pension benefits

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's contribution to the Public Service Pension Plan for the year was as follows: $4,080,000 (2003 – $3,507,000).

ii) Other benefits

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

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

Defined Benefit Plan Obligations

(in thousands of dollars)

	Other Benefits	
	2004	2003
Accrued benefit obligation		
Balance at beginning of year	**$ 7,077**	$ 7,231
Current Service Cost	**530**	523
Interest Cost	**423**	431
Benefits Paid	**(449)**	(1,608)
Actuarial losses	**166**	220
Curtailments	**–**	280
Balance at end of year	**$ 7,747**	$ 7,077
Accrued benefit obligation at end of the year	**7,747**	7,077
Unamortized net actuarial losses	**(552)**	(438)
Accrued Benefit Liability at end of period	**$ 7,195**	$ 6,639
Short term portion (accounts payable and accrued liabilities)	**$ 303**	$ 33
Long term portion (employee future benefits)	**$ 6,892**	$ 6,606

Significant Assumptions (weighted average)

	Other Benefits 2004	2003
Accrued benefit obligation as of December 31:		
Discount rate	**5.5%**	6.0%
Rate of compensation increase	**4.3%**	4.2%
Benefit costs for years ended December 31:		
Discount rate	**5.7%**	6.1%
Rate of compensation increase	**4.2%**	4.2%
Assumed health care cost trend rates at December 31:		
Initial health care cost trend rate	**6.0%**	5.5%
Cost trend rate declines to	**6.0%**	5.5%
Year that the rate reaches the rate it is assumed to remain at	**2005**	2004

10. 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.

11. Financial instruments

i) Foreign exchange contracts

In order to minimize or eliminate the speculative aspects of unprotected foreign exchange transactions the Mint manages its exposure to currency rate risk through the use of foreign exchange contracts. These are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The primary risk to the Corporation when entering into foreign exchange contracts is represented by credit risk, wherein a counterparty fails to perform an obligation as agreed upon causing a financial loss. The Corporation manages its exposure to credit risk by contracting only with creditworthy counterparties. All of the Corporation's foreign exchange contracts are with major Canadian financial institutions.

Foreign exchange forward contracts with a notional amount of $9.3 million were outstanding at the end of the year (2003 – $6.2 million).

Fair value estimates for derivative contracts are based on quoted forward market prices at December 31, 2004. As at December 31, 2004, the fair value of the foreign exchange contracts is a liability of $0.5 million (2003 – $0.2 million) including those hedges designated on November 26, 2004.

The anticipated transactions hedged are expected to occur within the six-month period ending June 30, 2005.

ii) Other financial instruments

The other financial instruments, which potentially subject the Corporation to a concentration of credit risk, consist principally of cash and cash equivalents and trade receivables. The Corporation primarily invests its excess cash in high quality financial instruments as described in Note 4 and mitigates potential receivables credit risk through credit evaluation and proper approval processes. Any anticipated bad debt loss has been provided for in the consolidated financial statements.

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

The fair value of the loans payable is $17.0 million (2003 – $20.8 million). This estimation is based on a discounted cash flow approach using current market rates.

12. Commitments and Guarantees

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Mint enters into firm fixed price purchase commitments, as well as precious metals leases. As at December 31, 2004, the Mint had $11.4 million (2003 – $6.0 million) in purchase commitments outstanding. These commitments are to be completed by May 31, 2005. In addition, at the end of the year, the Mint had entered into precious metal leases for 77,338 ounces of gold; 746,899 ounces of silver; and 431 ounces of platinum (2003 – 3,031 ounces of gold; 654,304 ounces of silver; and 185 ounces of platinum). The fees for these leases are based on market value. The metals under both these contractual arrangements have not been reflected in the Mint's statements.

The Mint also entered into a firm fixed price sale contract for base metal in 2004, which was outstanding at year-end in the amount of $1.4 million (2003 – nil). The contract will be fully executed by March 31, 2005. This commitment has not been reflected in the statement.

As of December 31, 2004, the Mint had outstanding bid bonds and performance guarantees in the amount of $8.2 million (2003 – $3.5 million). These were issued in the normal course of business. The guarantees are delivered under standby facilities available to the corporation through various financial institutions.

In 2004, the corporation entered into a sales agreement, which contained a counter purchase requirement. As of December 31, 2004, the purchase commitment totals $13.4 million. This purchase commitment is not reflected in the Mint's statements.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and terms and conditions. Since March 1999, following the enactment of changes to the *Royal Canadian Mint Act*, the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed $75 million. For the year ending December 31, 2004, approved short-term borrowings for working capital within this limit, were not to exceed $25 million.

To support such short-term borrowings as may be required from time to time, the Corporation has various commercial borrowing lines of credit, made available to it by Canadian financial institutions. These lines are unsecured and provide for borrowings up to 364 days in term based on negotiated rates. None of which was outstanding during the year.

13. Restructuring

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

The employee separations impacted both facilities across all functions of the Corporation. All employee separations were completed within the fiscal year and all amounts have been paid.

14. Discontinued operations

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

On August 28, 2003, the sale of the PURE 9999 jewellery inventory was completed. The Corporation received $1,243,000 in cash proceeds. All coin jewellery, referred to above, was offered for sale at liquidation prices until December 31, 2003. Any balance remaining on hand at year-end 2003 was written down to its precious metal value. On January 16, 2004, the remaining coin jewellery inventory was melted with the precious metal content reclaimed.

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

(in thousands of dollars)

	2004	2003
Revenue	$ –	$ 1,786
Loss before income tax	–	(3,333)
Income tax recovery	–	643
Net loss from discontinued operations	$ –	$ (2,690)

Notes to consolidated financial statements

December 31, 2004

15. Non-monetary transaction

In December 2003, the Mint signed a contract where it exchanged certain inventory for service credits. These credits will be applied against services to be provided to the Mint including advertising, marketing studies and printing. These credits are to be recognized as they are used by the Mint.

16. Interest in joint venture

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

(in thousands of dollars)	**2004**	2003
Assets		
Current assets	**$ 771**	$ 1,192
Long-term assets	**258**	248
Liabilities		
Current liabilities	**93**	787
Long-term liabilities	**40**	23

	2004	2003
Earnings		
Sales	**$ 4,121**	$ 2,527
Expenses	**3,734**	2,241
Net earnings	**266**	195
Cash flow		
Operating activities	**103**	(174)
Investing activities	**(38)**	(41)

81% of the joint venture's total sales for the year ended December 31, 2004 were to the Royal Canadian Mint (2003 – 76%). The Royal Canadian Mint's consolidated financial statements reflect only those sales and related expenses, which were sold to unrelated third parties.

17. Comparative figures

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