

# Second Quarter Report Fiscal 2012



ROYAL CANADIAN MINT  
MONNAIE ROYALE CANADIENNE

**Royal Canadian Mint**  
**Narrative Discussion**  
**26 weeks ended June 30, 2012**  
**(Unaudited)**

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**NARRATIVE DISCUSSION**

**BASIS OF PRESENTATION**

The Royal Canadian Mint has prepared this report as required by section 131.1 of the *Financial Administration Act* using the standard issued by the Treasury Board of Canada. This narrative should be read in conjunction with the unaudited consolidated financial statements.

The Mint has prepared these unaudited consolidated financial statements for the 13- and 26-week periods ended June 30, 2012 and July 2, 2011 in compliance with International Financial Reporting Standards (IFRS).

**PERFORMANCE**

**Consolidated results and financial performance**

*(in CAD \$ millions for the period ended June 30, 2012 and July 2, 2011)*

Consolidated Results	13 Weeks Ended				26 Weeks Ended			
	June 30, 2012	July 2, 2011	\$ change	% change	June 30, 2012	July 2, 2011	\$ change	% change
Revenue	541.9	670.0	(128.1)	-19.1%	1,084.6	1,329.6	(245.0)	-18.4%
Profit before taxes	7.6	10.1	(2.5)	-24.8%	16.2	19.3	(3.1)	-16.1%
Profit	5.7	7.3	(1.6)	-21.9%	12.1	13.8	(1.7)	-12.3%

	As at			
	June 30, 2012	December 31, 2011	\$ change	% change
Cash	51.3	78.9	(27.7)	-35.1%
Inventories	92.4	104.4	(12.0)	-11.5%
Capital assets	184.9	169.0	15.9	9.4%
Total assets	356.5	373.0	(16.5)	-4.4%
Working capital	107.3	121.5	(14.2)	-11.7%

*NOTE: The Mint's fiscal year ends on December 31. The year-to-date covers the 26 weeks to June 30, 2012 and July 2, 2011.*

**CONSOLIDATED OVERVIEW**

Demand for the products and services provided by two of the Mint's four business lines softened during the 13 weeks to June 30, 2012 causing consolidated revenue for the period to decline to \$541.9 million from \$670.0 million in the same period in 2011. The economic crisis in Europe has reduced demand in the foreign circulation coinage markets while stable precious metal prices caused demand for bullion to soften. This was partially offset by an increase in revenue from the Numismatics and collectibles and Canadian circulation business lines.

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Consolidated profit before taxes for the 13 weeks ended June 30, 2012 declined 24.8% to \$7.6 million from \$10.1 million in the same period in 2011. The change reflects the decline and the intense competition in both the foreign coinage and bullion markets.

Consolidated total assets declined 4.4% to \$356.5 million at June 30, 2012 from \$373.0 million at December 31, 2011. Cash declined 35.1% to \$51.3 million from \$78.9 million, mainly due to a \$10 million dividend payment to the Government of Canada and procurement of capital assets. At \$92.4 million, inventories declined 11.5% from fiscal 2011 year-end mainly due to the strong numismatic sales in the first and second quarters. Capital assets increased by 9.4% to \$184.9 million from \$169.0 million at December 31, 2011.

Consolidated revenue for the 26 weeks to June 30, 2012 was \$1,084.6 million, a 18.4% decline from revenues in the same period in 2011. Consolidated profit before taxes for the year-to-date declined 16.1% to \$16.2 million from \$19.3 million in the same period in 2011.

Achieving the annual targets established in the 2012 Corporate Plan approved by the Government of Canada in November 2011, will depend upon continued strength in numismatics and more robust sales of bullion.

#### **CORPORATE DEVELOPMENTS**

The Government of Canada announced the elimination of the penny from Canada's coinage system in Economic Action Plan 2012 and the last penny for Canadian circulation was struck in Winnipeg on May 4<sup>th</sup>. The penny will remain legal tender, but the Royal Canadian Mint will stop distributing pennies on February 4, 2013.

On April 10, 2012, a new generation of one-dollar and two-dollar circulation coins began circulating. The new coins incorporate advanced security features and are manufactured with the Mint's patented multi-ply plated steel (MPPS) technology. More cost-effective than their predecessors and unprecedented in their security, these new coins retain the common loon and polar bear designs and physical appearance familiar to Canadian consumers and businesses.

The coins incorporate new, visible security features that further enhance the security and integrity of Canada's coinage system. The reverse of both coins features a laser mark micro-engraving; the two-dollar coin also contains a virtual image and edge lettering. The Mint's ability to control the plating thickness of each metal layer also provides greater flexibility in controlling electromagnetic signatures. This makes the security of MPPS coins superior to non-plated alloy coins of the same dimensions. Existing one-dollar and two-dollar coins remain legal tender and will continue to circulate along with this new generation of circulation coins.

The Mint launched a program for developers from across North America to test and challenge a digital currency technology and to determine its applicability in the current marketplace. The

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MintChip™ Developer Challenge accepted submissions from April 4 until August 1, and is part of the Mint's ongoing research and development efforts.

MintChip™ uses innovative technology for which the Mint has prototypes and five patents pending. It uses a secure chip to hold electronic value and a secure protocol to transfer electronic value from one chip to another. The MintChip™ Developer Challenge invited North American software developers to create innovative mobile payment applications using the MintChip™ technology. Winners in several categories will be selected by a panel of judges while members of the public will vote for the Popular Choice Award. The winners will be announced in the fall of 2012.

The Mint continued to build on its international reputation for innovation and quality by winning two awards at Coin Constellation-2012, an international commemorative coins contest. It won Coin of the Year for the 99.999 pure gold Queen's Diamond Jubilee coin inset with a round brilliant-cut Canadian diamond that could be seen from both sides of the coin to enhance clarity and sparkle. It won third place in the Most Original Technology category for a fine silver coin that featured a painted tulip and a ladybug crafted in Venetian glass. It commemorates the 100,000 tulip bulbs sent to Canada by Holland in appreciation for safe haven provided to the Dutch Royal Family after the German conquest of the Netherlands. Both coins were world firsts.

Building upon the success of the Canadian Gold Reserves Exchange Traded Receipts (ETRs) launched in late 2011, the Mint modified its 2012 corporate plan to allow for the launch of a silver ETR program when market conditions are appropriate.

The expansion and renewal of the Winnipeg plating facility and construction of the new Research and Development Centre of Excellence continue to progress on schedule.

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**PERFORMANCE BY BUSINESS LINE**

**Revenue by Business Line**

*(in CAD \$ millions for the period ended June 30, 2012 and July 2, 2011)*

Business Lines	13 Weeks Ended				26 Weeks Ended			
	June 30, 2012	July 2, 2011	\$ change	% change	June 30, 2012	July 2, 2011	\$ change	% change
Canadian circulation	32.6	29.5	3.1	10.5%	68.8	56.5	12.3	21.8%
Foreign coinage	5.8	12.5	(6.7)	-53.6%	10.5	22.8	(12.3)	-53.9%
Numismatics and collectibles	31.4	22.0	9.4	42.7%	75.7	42.2	33.5	79.4%
Bullion, ETR and Refinery	472.1	606.0	(133.9)	-22.1%	929.6	1,208.1	(278.5)	-23.1%

**Operating Highlights and Analysis of Results**

**Canadian circulation:** The Mint sold 77.1 million coins during the 13 weeks ended June 30, 2012, a decrease of 59.8% from 192.0 million coins sold in the same period in 2011, mainly due to the elimination of the penny. Despite the decrease in volume, revenue from the business line increased 8.1% to \$25.3 million for the quarter from \$23.4 million in the same period in 2011, mainly due to the launch of the new one-dollar and two-dollar MPPS coins. During the quarter, notable coins released included the first in a series of five commemorative circulation coins celebrating the 200th anniversary of the War of 1812.

The Alloy Recovery Program (ARP) continues to generate reasonable revenue and profit with the coins recovered through the Mint's recycling program. During the 13 weeks ended June 30, 2012, the Mint recovered and sold 272.0 metric tonnes of nickel and 57.0 metric tonnes of cupronickel compared to 162.5 metric tonnes of nickel and 57.0 metric tonnes of cupronickel in the same period in 2011. Revenues of the program for the quarter were \$7.3 million compared to \$6.1 million in the same period in 2011.

For the 26 weeks to June 30, 2012, the Mint sold 335.8 million coins, a decrease of 9.3% from 370.3 million coins sold in the same period in 2011. Revenue increased 24.6% to \$55.2 million from \$44.3 million in the same period in 2011. During the year-to-date period, the Mint recovered and sold 433.0 metric tonnes of nickel and 115.0 metric tonnes of cupronickel compared to 327.5 metric tonnes of nickel and 114.0 metric tonnes of cupronickel in the same period in 2011. Year-to date, ARP revenues were \$13.7 million compared to \$12.2 million in the same period in 2011.

**Numismatics and collectibles:** Demand for the Mint's numismatic products remained strong, driving revenue up 42.7% to \$31.4 million during the 13 weeks ended June 30, 2012 compared to \$22.0 million in the same period in 2011. The Mint issued 25 new products during the quarter compared to 34 in the same period in 2011. Year-to-date, the Mint has released 70 new products

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compared to 57 in the same period in 2011. With numismatic coin production and shipping volumes increasing by 50% in 2012, the Mint has experienced challenges in meeting the recent growth in demand for its products. In response, the Mint is investing time and resources to improve overall customer experience.

The most notable products issued during the quarter included the Mint's first five-kilogram 99.99% fine silver coin, which featured the Spirit of Haida Gwaii design from the masterpiece by Bill Reid, and its first glow-in-the-dark coloured coin in a new 25-cent dinosaur series. Other products issued during the quarter included the first in a series of fine silver coins honouring Canada's famed Group of Seven; a fine silver coin celebrating the 25th anniversary of Rick Hansen's Man in Motion world tour; a painted fine silver and venetian glass coin featuring a mauve Aster and bumblebee; and a fine silver coin featuring the work of Robert Ganz, the grand prize winner in the Canadian Wildlife Photography of the Year contest. During the quarter there were 21 sell outs compared to 7 in the same period in 2011. There were 26 sell outs during the 26 weeks ended June 30, 2012 compared to 16 in the same period in 2011.

The customer acquisition program continues to grow the Mint's customer base while demand from collectors in Europe and Asia remains strong.

During the 26 weeks ended June 30, 2012, revenue for the business line was \$75.7 million compared to \$42.2 million in the same period in 2011.

**Foreign coinage:** The Mint produced and shipped 135.1 million coins and blanks to ten countries in the 13 weeks ended June 30, 2012. In the same period in 2011, the Mint produced and shipped 331.7 million coins and blanks to seven countries. Revenue declined 53.6% to \$5.8 million in the quarter from \$12.5 million in the same period in 2011. The economic crisis in Europe has substantially reduced demand for coinage, creating a temporary surplus in global minting capacity and an intensely competitive marketplace.

The Mint continues to compete aggressively to expand its share in the foreign market, securing seven circulation contracts year to date. The Mint also secured four numismatic contracts during the first half of 2012.

In the 26 weeks ended June 30, 2012, the Mint produced and shipped 312.2 million coins and blanks to 10 countries compared to 731.1 million coins and blanks for 7 countries in the same period in 2011. Revenue declined 53.9% to \$10.5 million in the first half of 2012 from \$22.8 million in the same period in 2011. The global financial crisis that began in 2008 continues to depress performance in the business line.

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**Bullion, ETR and Refinery:** Bullion, ETR and Refinery revenues declined 22.1% to \$472.1 million in the quarter from \$606.0 million in the same period in 2011. Sales of Silver Maple Leaf (SML) coins declined to 4.0 million ounces during the quarter from 6.3 million ounces in the same period last year. Gold Maple Leaf (GML) sales declined to 165 thousand ounces compared to 207 thousand ounces in the same period in 2011.

The stability of precious metal prices for most of the quarter within a narrow trading range around US\$1,600 has depressed demand. The decline from the peak price of US\$1,879.50 amplified the impact on revenue. Despite the decline in demand and an intensely competitive market, the Mint has expanded its share of the global market for bullion.

Canadian Gold Reserves' Exchange Traded Receipts (ETRs) program launched in the fall of 2011 continues to generate modest revenue. A second offering is under consideration and the Mint's corporate plan has been revised to include the launch of silver ETRs when conditions are appropriate.

During the 26 weeks ended June 30, 2012, Bullion, ETR and Refinery revenue declined 23.1% to \$929.6 million from \$1,208.1 million in the same period in 2011. Sales of SML coins declined 31.9% to 7.9 million ounces while sales of GML coins declined 40.0% to 298 thousand ounces.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Capital expenditures increased to \$11.7 million for the 13 weeks to June 30, 2012 compared to \$4.3 million in the same period in 2011, where \$5.9 million was related to the expansion and renewal of the plating plant in Winnipeg. Most of the remaining \$5.8 million was for the ERP (Enterprise Resource Planning) upgrade and new equipment for the Winnipeg and Ottawa facilities.

During the 26 weeks ended June 30, 2012, capital expenditures were \$24.0 million compared to \$7.0 million in the same period in 2011.

The Mint has the financial capacity through current cash flow and established access to capital to fund the substantial anticipated expenditures for the plating plant expansion.

#### **RISKS TO PERFORMANCE**

There has not been any material change in the risks to performance reported in Management's Discussion and Analysis in the 2011 annual report.

## **OUTLOOK**

The robust numismatic sales experienced throughout 2011 have continued into 2012. The Mint plans to release 130 new coins during the year and continues to build its customer base in existing markets and open new markets. The Mint cannot predict the precious metals market, but performance of the Bullion and Refinery business should remain competitive. The Foreign coinage business line remains challenged by the crisis in Europe, but will continue to secure sales on the strength of superior product and services. Despite the increase in Canadian circulation coinage revenue in the first two quarters, total revenue for 2012 is not expected to vary significantly from 2011. The elimination of the penny from Canada's coin set will have limited impact on the Mint's operating or financial performance.

## **Statement of Management Responsibility by Senior Officials**

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with IAS 34 Interim Financial Reporting and requirements in the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the consolidated quarterly financial statements.

To the best of our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.



Ian E. Bennett  
*President and  
Master of the Mint*



André Aubrey, CA  
*Acting VP Finance &  
Administration*

Ottawa, Canada  
August 23, 2012



**ROYAL CANADIAN MINT**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>(unaudited)</i>		As at	
<i>(CAD\$ thousands)</i>	Notes	June 30, 2012	December 31, 2011
<b>Assets</b>			
Cash	5	\$ 51,265	\$ 78,930
Accounts receivable	6	18,751	13,234
Prepaid expenses		3,699	2,825
Income taxes receivable	15	4,915	3,473
Inventories	7	92,407	104,417
Derivative financial assets	8	234	940
<b>Current assets</b>		<b>171,271</b>	<b>203,819</b>
Derivative financial assets	8	112	-
Property, plant and equipment	9	176,093	161,464
Investment property	10	236	236
Intangible assets	11	8,760	7,514
<b>Total assets</b>		<b>\$ 356,472</b>	<b>\$ 373,033</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	12 & 20	\$ 50,178	\$ 71,369
Loans payable	13	1,504	1,504
Deferred revenue	14	9,110	6,183
Employee benefits	16	1,311	1,442
Derivative financial liabilities	8	1,832	1,807
<b>Current liabilities</b>		<b>63,935</b>	<b>82,305</b>
Derivative financial liabilities	8	290	387
Loans payable	13	8,970	8,971
Deferred tax liabilities		12,984	13,040
Employee benefits	16	9,530	9,530
<b>Total liabilities</b>		<b>95,709</b>	<b>114,233</b>
<b>Shareholder's equity</b>			
Share capital (authorised and issued 4,000 non-transferable shares)		40,000	40,000
Retained earnings		223,221	221,077
Accumulated other comprehensive income		(2,458)	(2,277)
<b>Total shareholder's equity</b>		<b>260,763</b>	<b>258,800</b>
<b>Total liabilities and shareholder's equity</b>		<b>\$ 356,472</b>	<b>\$ 373,033</b>

Commitments, Contingencies and Guarantees (note 21)

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

**ROYAL CANADIAN MINT  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	Notes	13 weeks ended		26 weeks ended	
		<b>June 30,</b> <b>2012</b>	July 2, 2011	<b>June 30,</b> <b>2012</b>	July 2, 2011
Revenues	17	\$ 541,916	\$ 670,007	\$ 1,084,609	\$ 1,329,635
Cost of goods sold		505,418	635,326	1,010,058	1,263,769
Gross profit		36,498	34,681	74,551	65,866
<b>Other operating expenses</b>					
Marketing and Sales expenses		16,403	12,146	33,648	21,855
Administration expenses		12,709	12,133	24,620	23,610
Other operating expenses		29,112	24,279	58,268	45,465
<b>Operating profit</b>		<b>7,386</b>	<b>10,402</b>	<b>16,283</b>	<b>20,401</b>
Net foreign exchange gains (losses)		151	(270)	(193)	(1,137)
<b>Finance income (costs), net</b>					
Finance income		109	67	233	240
Finance costs		(65)	(75)	(131)	(190)
Finance income (costs), net		44	(8)	102	50
Profit before income tax		7,581	10,124	16,192	19,314
Income tax expense	15	1,895	2,834	4,048	5,486
<b>Profit for the period</b>		<b>5,686</b>	<b>7,290</b>	<b>12,144</b>	<b>13,828</b>
<b>Other comprehensive income</b>					
Net gains (losses) on cash flow hedges		(492)	(12)	197	64
Prior year net gains (losses) on cash flow hedges transferred to net income		(243)	131	(378)	215
Other comprehensive income, net of tax		(735)	119	(181)	279
<b>Total comprehensive income</b>		<b>\$ 4,951</b>	<b>\$ 7,409</b>	<b>\$ 11,963</b>	<b>\$ 14,107</b>

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

ROYAL CANADIAN MINT  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

13 weeks ended June 30, 2012

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	Share Capital	Retained earnings	Accumulated other comprehensive income ("AOCI") (Net gains (losses) on cash flow hedges)	Total
Balance as at March 31, 2012	\$ 40,000	\$ 227,535	\$ (1,723)	\$ 265,812
Profit for the period	-	5,686	-	5,686
Other comprehensive income	-	-	(735)	(735)
Dividends paid	-	(10,000)	-	(10,000)
Balance as at June 30, 2012	\$ 40,000	\$ 223,221	\$ (2,458)	\$ 260,763

13 weeks ended July 2, 2011

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	Share Capital	Retained earnings	Accumulated other comprehensive income ("AOCI") (Net gains(losses) on cash flow hedges)	Total
Balance as at April 2, 2011	\$ 40,000	\$ 204,457	\$ 450	\$ 244,907
Profit for the period	-	7,290	-	7,290
Other comprehensive income	-	-	119	119
Dividends paid	-	(10,000)	-	(10,000)
Balance as at July 2, 2011	\$ 40,000	\$ 201,747	\$ 569	\$ 242,316

26 weeks ended June 30, 2012

<i>(unaudited)</i> (CAD\$ thousands)	Share Capital	Retained earnings	("AOCI") (Net gains (losses) on cash flow hedges)	Accumulated other comprehensive income Total
Balance as at December 31, 2011	\$ 40,000	\$ 221,077	\$ (2,277)	\$ 258,800
Profit for the period	-	12,144	-	12,144
Other comprehensive income	-	-	(181)	(181)
Dividends paid	-	(10,000)	-	(10,000)
Balance as at June 30, 2012	\$ 40,000	\$ 223,221	\$ (2,458)	\$ 260,763

26 weeks ended April 2, 2011

<i>(unaudited)</i> (CAD\$ thousands)	Share Capital	Retained earnings	("AOCI") (Net gains(losses) on cash flow hedges)	Accumulated other comprehensive income Total
Balance as at December 31, 2010	\$ 40,000	\$ 197,919	\$ 290	\$ 238,209
Profit for the period	-	13,828	-	13,828
Other comprehensive income	-	-	279	279
Dividends paid	-	(10,000)	-	(10,000)
Balance as at July 2, 2011	\$ 40,000	\$ 201,747	\$ 569	\$ 242,316

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

**ROYAL CANADIAN MINT  
CONSOLIDATED STATEMENT OF CASH FLOWS**

	13 weeks ended		26 weeks ended	
<i>(unaudited)</i>	<b>June 30,</b>	July 2,	<b>June 30,</b>	July 2,
<i>(CAD\$ thousands)</i>	<b>2012</b>	2011	<b>2012</b>	2011
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 550,559	\$ 664,364	\$ 1,082,360	\$ 1,315,543
Payments to suppliers and employees	(554,485)	(682,364)	(1,081,720)	(1,360,943)
Interest paid	(65)	(75)	(131)	(190)
Cash receipts on derivative contracts	734,427	60,167	1,065,172	110,304
Cash payments on derivative contracts	(726,423)	(43,105)	(1,054,032)	(70,577)
Income taxes paid	(2,765)	(7,869)	(5,546)	(8,106)
Net cash generated (used) by operating activities	<b>1,248</b>	(8,882)	<b>6,103</b>	(13,969)
<b>Cash flows from investing activities</b>				
Interest received	109	67	233	240
Payments to acquire property, plant and equipment and intangible assets	(11,710)	(4,334)	(24,007)	(7,006)
Net cash used by investing activities	<b>(11,601)</b>	(4,267)	<b>(23,774)</b>	(6,766)
<b>Cash flows from financing activities</b>				
Dividend paid	(10,000)	(10,000)	(10,000)	(10,000)
Repayment of loans and other payables	(1)	(1)	(1)	(1)
Net cash used by financing activities	<b>(10,001)</b>	(10,001)	<b>(10,001)</b>	<b>(10,001)</b>
Net decrease in cash	<b>(20,354)</b>	(23,150)	<b>(27,672)</b>	(30,736)
Cash at the beginning of the period	<b>71,496</b>	78,271	<b>78,930</b>	86,045
Effects of exchange rate changes on cash held in foreign currencies	123	1	7	(187)
<b>Cash at the end of the period</b>	<b>\$ 51,265</b>	\$ 55,122	<b>\$ 51,265</b>	\$ 55,122

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



**Royal Canadian Mint**  
**Notes to the Consolidated Financial Statements**  
**26 weeks ended June 30, 2012**  
**(Unaudited)**

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**1. NATURE AND DESCRIPTION OF THE CORPORATION**

The Royal Canadian Mint (the “Mint” or the “Corporation”) was incorporated in 1969 by the *Royal Canadian Mint Act* to mint coins in anticipation of profit and carry out other related activities. 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. The addresses of its registered office and principal place of business are 320 Sussex Drive, Ottawa, Ontario, Canada, K1A 0G8 and 520 Lagimodière Blvd, Winnipeg, Manitoba, Canada, R2J 3E7.

In 2002, the Mint incorporated RCMH-MRCF Inc., a wholly-owned subsidiary. RCMH-MRCF Inc. has been operationally inactive since December 31, 2008.

The Corporation is a prescribed federal Crown corporation for tax purposes and is subject to federal income taxes under the *Income Tax Act*.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of presentation**

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting and the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada.

The financial statements were prepared on the historical cost basis, except for derivative instruments which were measured at fair value and the defined benefit plan and other long-term benefits which were measured at the actuarial valuation amount. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The policies set out below were consistently applied to all the periods presented.

These interim consolidated financial statements have not been audited or reviewed by an external auditor and must be read in conjunction with the most recent annual audited financial statements and with the narrative discussion included in the quarterly financial report.

These interim consolidated financial statements have been approved for public release by the Board of Directors of the Corporation on August 23, 2012.

## **2.2 Consolidation**

The consolidated financial statements incorporate the financial statements of the Corporation and its wholly-owned subsidiary. The subsidiary adopted IFRS at the same time as the Corporation and its accounting policies are in line with those used by the Corporation. All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

## **2.3 Foreign currency translation**

Unless otherwise stated, all figures reported in the consolidated financial statements and disclosures are reflected in thousands of Canadian dollars (CAD\$), which is the functional currency of the Corporation.

Transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to Canadian dollars using the exchange rate at that date. Non-monetary items that are measured at fair value in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for exchange differences on transactions applying hedge accounting which are recognized in other comprehensive income.

## **2.4 Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is presented net of estimated customer returns, rebates and other similar allowances.

### **2.4.1 Sale of goods**

Revenues from the sale of goods are recognized when:

- The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Corporation.



#### **2.4.2 Rendering of services**

Revenues from the rendering of services are recognized by reference to the stage of completion of contracts at the reporting date. The revenues are recognized when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Corporation.

The stage of completion of contracts at the reporting date is determined by reference to the costs incurred to date as a percentage of the estimated total costs of the contract.

#### **2.4.3 Interest revenue**

Interest revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Interest revenues are accrued on a time basis and recognized by using the effective interest method.

#### **2.4.4 Royalties**

Royalty revenues are recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably.

#### **2.5 Deferred revenues**

Payments received in advance on sales are not recognized as revenues until the products are shipped or the services are rendered which represents the time at which the significant risks and rewards are transferred to the buyer. As such, deferred revenues are initially recognized within liabilities on the consolidated statement of financial position.

#### **2.6 Cash and cash equivalents**

Cash and cash equivalents include cash on hand and short-term highly liquid investments that are readily convertible to cash with a maturity term of three months or less at the time of acquisition. Cash equivalents consist primarily of short-term deposits and are subject to insignificant risk of changes in fair value.

At the reporting date, the Corporation holds no cash equivalents.

## **2.7 Inventories**

Inventories consist of raw materials and supplies, work in process and finished goods, and they are measured at the lower of cost and net realisable value. Cost of inventories includes all costs of purchase, all costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventory is determined by the weighted average cost method. Net realisable value represents the estimated selling price of inventory in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## **2.8 Financial instruments**

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

### **2.8.1 Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

## **2.9 Financial assets**

The Corporation's financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

### **2.9.1 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using

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the effective interest method, less any impairment write downs. Assets in this category include accounts receivables and are classified as current assets in the consolidated statement of financial position.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be insignificant.

### **2.9.2 Financial assets at fair value through profit or loss**

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated or effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition. The Corporation has not designated any financial asset as FVTPL at the date of transition or at the end of the period.

Financial assets at FVTPL are presented at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in note 8.4.

### **2.9.3 Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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Objective evidence of impairment could include:

- significant financial difficulty of the debtor; or
- breach of contract, such as a default or delinquency in payments; or
- it becoming probable that the debtor will enter bankruptcy or financial re-organisation; or
- significant decrease in creditworthiness of the debtor.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **2.9.4 Derecognition of financial assets**

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

#### **2.10 Financial liabilities**

Financial liabilities are classified as either financial liabilities at "FVTPL" or "other financial liabilities".

### **2.10.1 Financial liabilities at fair value through profit or loss**

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading using the same criteria described in note 2.9.2 for a financial asset classified as held for trading.

The Corporation has not designated any financial liability as FVTPL at the end of the period.

Financial liabilities at FVTPL are presented at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in note 8.4.

### **2.10.2 Other financial liabilities**

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

### **2.10.3 Derecognition of financial liabilities**

The Corporation derecognizes financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

### **2.11 Derivative financial instruments**

The Corporation selectively utilizes derivative financial instruments, primarily to manage financial risks and to manage exposure to fluctuations in foreign exchange rates, interest rates and commodity prices. The Corporation's policy is not to enter into derivative instruments for trading or speculative purposes.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Attributable transaction costs are recognized in profit or loss as incurred. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current

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asset or a non-current liability on the consolidated statement of financial position if the remaining contractual maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

**2.11.1 Embedded derivatives**

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Corporation has no embedded derivatives at the end of the period.

**2.11.2 Hedge accounting**

The Corporation designates certain derivatives as hedges of highly probable forecast transactions or hedges of firm commitments (cash flow hedges). Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure. All designated hedges are formally documented at inception, detailing the particular risk management objective and the strategy undertaking the hedge transaction.

The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be assessed. The Corporation assesses whether the derivatives are highly effective in accomplishing the objective of offsetting changes in forecasted cash flows attributable to the risk being hedged both at inception and over the life of the hedge. Furthermore, accumulated ineffectiveness is measured over the life of the hedge.

The gain or loss relating to the changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges is recorded in other comprehensive income. The gain or loss relating to the ineffective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized immediately in the profit or loss.

Amounts previously recognized in other comprehensive income are transferred to net income in the period when the hedged item is recognized in the consolidated statement of comprehensive income.

Hedge accounting is discontinued prospectively when the hedging instrument is terminated, exercised, matured or when the derivative no longer qualifies for hedge accounting.

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**2.12 Property, plant and equipment**

**2.12.1 Asset recognition**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

On transition to IFRS, the cost of the building was determined by reference to a revaluation performed by third party appraisers at the date of transition to IFRS. The Corporation elected to apply the optional exemption in IFRS 1 to use this revaluation as deemed cost at the date of transition to IFRS.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**2.12.2 Depreciation**

Depreciation of property, plant and equipment begins when the asset is available for use by the Corporation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which are estimated as follows:

Land improvements	40 years
Buildings	35-60 years
Equipment	5-25 years

Capital work-in-progress for production, supply or administrative purposes, or for purposes not yet determined, is carried at cost. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Corporation's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Useful lives, residual values and depreciation methods are reviewed at each year end and necessary adjustments are recognized on a prospective basis as changes in estimates.

### **2.12.3 Subsequent costs**

Day-to-day repairs and maintenance costs are expensed when incurred.

Costs incurred on a replacement part for property, plant and equipment are recognized in the carrying amount of the affected item when the costs are incurred. The carrying amount of the part that was replaced is derecognized.

Cost of major inspections or overhauls are recognized in the carrying amount of the item or as a replacement. Any remaining carrying amount of the cost of the previous inspection is derecognized.

### **2.12.4 Derecognition**

An item of property, plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. The gain or loss on disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss when the item is derecognized.

### **2.13 Investment property**

Investment property is property held to earn rental income or for capital appreciation - or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

The vacant land in the Corporation's Winnipeg location is classified as investment property at the date of transition to IFRS. Investment properties are measured at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

The fair value of the investment property was determined by an independent qualified appraiser, which is disclosed in note 10. The valuation will be carried out every 3 to 5 years or earlier if, in management's judgment, it is likely that there is significant change in the market price of the investment property.

### **2.14 Intangible Assets**

Intangible assets are recorded at cost and are subsequently amortized on a straight-line basis over the term of the respective contract.



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The Corporation's intangible assets comprise of software for internal use or for providing services to customers. These assets are carried at cost, less any accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives of 5 years. The estimated useful life and amortization method are reviewed at each year end with necessary adjustments being recognized on a prospective basis as changes in estimates.

### **2.15 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Corporation. All other leases are classified as operating leases. The Corporation currently has no finance leases.

The operating lease payments are recognized on a straight-line basis over the lease term.

### **2.16 Impairment of tangible and intangible assets**

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## **2.17 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred. No borrowing costs were capitalized at the end of the reporting period.

## **2.18 Employee benefits**

### **2.18.1 Short-term employee benefits**

Short-term employee benefits are the employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. The Corporation's short-term employee benefits include wages and salaries, annual leave and other types of short-term benefits.

The Corporation recognizes the undiscounted amount of short-term employee benefits earned by an employee in exchange for services rendered during the period as a liability in the consolidated statement of financial position, after deducting any amounts already paid and as an expense in profit or loss.

### **2.18.2 Pension benefits**

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the period when employees render service and represent the total pension obligation of the Corporation.

### **2.18.3 Other Post-Employment benefits**

Other Post-Employment benefits include severance benefit and supplementary retirement benefits including post retirement benefits and post retirement insurance benefits for certain employees. The benefits are accrued as the employees render the services necessary to earn them.

The accrued benefit obligation is actuarially determined by independently qualified actuaries using the projected unit credit actuarial valuation method 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.

Actuarial gains and losses arise when actual results differ from results which are estimated based on the actuarial assumptions. Actuarial gains and losses are reported in retained earnings in the Shareholder's equity in the year that they are recognized as other comprehensive income in the consolidated statement of comprehensive income.

When past service costs occur, they are recognized immediately in profit or loss for the benefits which have vested and are deferred and amortized to profit or loss on a straight-line basis over the average period for the benefits which have not yet vested.

### **2.18.4 Other Long-Term Employee benefits**

Other Long-Term Employee benefits are employee benefits (other than Post-Employment benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

The Corporation's Other Long-Term Employee benefits include benefits for employees in receipt of long-term disability benefits, sick leave and special leave benefits and worker's compensation benefits.

The Corporation's sick leave and special leave benefits that are accumulated but not vested are classified as other long-term employee benefits under IFRS at the date of transition. The benefits of long-term disability benefits, sick leave benefits and special leave benefits are accrued as the employees render the services necessary to earn them. The accrued benefit obligation is actuarially determined by independently qualified actuaries using discounted estimated future benefit payments.

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

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of accidents that occurred up to the measurement date. The benefit entitlements are based upon relevant provincial legislations in effect on that date.

For all Other Long-Term Employee benefits, past service costs and actuarial gains and losses are recognized immediately in profit or loss on the consolidated statement of comprehensive income, as is the effect of curtailments and settlements, if applicable.

## **2.19 Income tax**

Income tax expense comprises the sum of the tax currently payable and deferred tax.

### **2.19.1 Current tax**

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **2.19.2 Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### **2.19.3 Current and deferred tax for the period**

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

### **2.19.4 Investment Tax Credits (ITC)**

The Corporation will continue to use the cost reduction method to record ITC received related to research and development. ITC are recognized as income over the same periods of the related costs that they are intended to compensate.

### **2.20 Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **2.21 Asset retirement and decommissioning obligations**

Asset retirement obligations are legal obligations associated with the retirement of property, plant and equipment when the obligation arises from the acquisition, construction, development or normal operation of the assets. When it is considered probable that a liability exists, the Corporation will recognize such liability in the period in which it is incurred if a reasonable estimate of fair value can be determined. The liability will be initially measured at fair value, and will be subsequently adjusted each period to reflect the passage of time through accretion expense and any changes in the estimated future cash flows underlying the initial fair value measurement. The associated costs will be capitalized as part of the carrying value of the related asset and amortized over the remaining life of the underlying asset to which it relates.

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The Corporation will keep monitoring new statutory or regulatory requirements which may impose new asset retirement obligation. In such circumstances, the liability will be recognized when the obligation is first imposed.

## **2.22 Share capital**

In 1987, the revised *Royal Canadian Mint Act* provides the Corporation with an authorized share capital of \$40 million divided into 4,000 non-transferable shares, redeemable at their issue price of \$10,000 each. In 1989, the Minister of Supply and Services purchased the 4,000 shares in the Corporation. This was a part of a financial structuring that allows the Corporation to apply its net earnings to meet operational requirements, replace capital assets, generally ensure its overall financial stability and pay a reasonable dividend to the shareholder.

## **3. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGMENTS**

### **3.1 Key sources of estimation uncertainty**

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period.

In making estimates and using assumptions, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ significantly from the estimates and assumptions. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimated useful lives of property, plant and equipment and intangibles, employee benefits liabilities, the expected precious metal content in refinery by-products and inventory valuation allowance are the most significant items where estimates and assumptions are used.

### **3.1.1 Capital assets**

Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets. The useful lives of these assets are periodically reviewed for continued appropriateness. Changes to the useful life estimates would affect future depreciation or amortization expense and the future carrying value of assets. The carrying amounts of the capital assets as at the end of the reporting periods are included in notes 9 and 11.

### **3.1.2 Employee benefits liabilities**

The present value of the Post-employment and other long-term employee benefits liabilities to be settled in the future depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as discount rates, long-term rates of compensation increase, retirement age, future health-care and dental costs and mortality rates. The Corporation consults with external actuaries regarding these assumptions annually. Any changes in these assumptions will impact the carrying amount of the Post-employment and other long-term employee benefits liabilities. The carrying amount of the employee benefits liabilities as at the end of the reporting periods is included in note 16.

### **3.1.3 Precious metal content in refinery by-products**

Certain refinery by-product materials with precious metal content which cannot be processed by the Corporation are shipped to contract refineries to determine the actual precious metal content. Due to the varying degrees of the physical homogeneity of these materials the Corporation relies on the best available sampling and assay methodologies to arrive at the best estimate of the precious metal content when materials are shipped. Any changes in these estimates will impact the carrying amount of the inventory. Once final settlements are reached with the contract refineries and the actual precious metal content is known these estimates are replaced by the actual values. The carrying amount of the inventory as at the end of the reporting periods is included in note 7.

### **3.1.4 Inventory valuation allowance**

Inventory valuation allowance is estimated for slow moving or obsolete inventories. Management reviews the estimation regularly. Any change in the estimation will impact the inventory valuation allowance. The carrying amount of the inventory as at the end of the reporting periods is included in note 7.

### **3.2 Critical judgements**

The critical judgements that the Corporation's management has made in the process of applying the Corporation's accounting policies, apart from those involving estimations, that have the most significant effects on the amounts recognized in the Corporation's consolidated financial statements are as follows:

#### **3.2.1 Capital assets**

Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgement with respect to the existence of impairment indicators at the end of each reporting period.

#### **3.2.2 Provisions and contingent liabilities**

In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgement in assessing whether the Corporation has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is considered to be remote.



#### **4. FUTURE CHANGES IN ACCOUNTING POLICIES**

The Corporation has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation's consolidated financial statements in future years:

##### *IAS 1 Presentation of Financial Statements ("IAS 1")*

IAS 1 was amended in June 2011 to revise the way other comprehensive income is presented. The amendment to IAS 1 is effective for reporting periods beginning on or after July 1, 2012. Earlier application is permitted. The adoption of this amendment is not expected to have a material impact on the Corporation's consolidated financial statements.

##### *IAS 19 Employee Benefits ("IAS 19")*

IAS 19 was amended in June 2011 for the accounting and presentation of post-employment benefits including the elimination of the use of the 'corridor' approach, the change of the treatment for termination benefits and various other amendments. The amendment to IAS 19 is effective for reporting periods beginning on or after January 1, 2013. This amendment is to be applied retrospectively. Earlier application is permitted. The Corporation is currently evaluating the impact of this amendment to IAS 19 on its consolidated financial statements.

##### *IAS 27 Separate Financial Statements ("IAS 27")*

In 2011, IAS 27 replaced the existing IAS 27 "Consolidated and Separate Financial Statements". IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. IAS 27 is effective for annual periods beginning on or after January 1, 2013. This standard is to be applied retrospectively. Earlier application is permitted. The adoption of this standard is not expected to have an impact on the Corporation's consolidated financial statements.

##### *IAS 28 Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 was amended in 2011 and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. This standard is to be applied retrospectively. Earlier application is permitted. The adoption of this standard is not expected to have an impact on the Corporation's consolidated financial statements.

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*IAS 32 Financial Instruments: Presentation ("IAS 32")*

An amendment was released in December 2011 to IAS 32 about application guidance on the offsetting of financial assets and financial liabilities with effective date on or after January 1, 2014. This amendment is to be applied retrospectively. The adoption of the amendment is not expected to have a material impact on the Corporation's consolidated financial statements.

*IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")*

An amendment to IFRS 1 was released in March 2012 to address how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. The amendment is applicable to annual periods beginning on or after 1 January 2013. There is no impact on the Corporation's consolidated financial statements.

*IFRS 7 Financial Instruments: Disclosures ("IFRS 7")*

There were two amendments released in December 2011 to IFRS 7. One was on enhancing disclosures about offsetting of financial assets and financial liabilities with effective date on or after January 1, 2013 and the other one was on requiring disclosures about the initial application of IFRS 9 with effective date on or after January 1, 2015 (or otherwise when IFRS 9 is first applied). The amendments are to be applied retrospectively. The adoption of these amendments is not expected to have a material impact on the Corporation's consolidated financial statements.

*IFRS 9 Financial Instruments ("IFRS 9")*

The mandatory application date of IFRS 9 was amended in December 2011. The Corporation will be required to retrospectively adopt IFRS 9 on January 1, 2015, which is the result of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard defines the classification, recognition, derecognition and measurement guidance for financial assets and financial liabilities. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

*IFRS 10 Consolidated Financial Statements ("IFRS 10")*

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation—Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. This standard is to be applied retrospectively. Earlier application is permitted. The adoption of this standard is not expected to have an impact on the Corporation's consolidated financial statements.

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*IFRS 11 Joint Arrangements (“IFRS 11”)*

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31 “Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-Monetary Contributions by Venturers” and is effective for annual periods beginning on or after January 1, 2013. This standard is to be applied prospectively. Earlier application is permitted. The adoption of this standard is not expected to have an impact on the Corporation's consolidated financial statements.

*IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”)*

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. This standard is to be applied prospectively. Earlier application is permitted. The adoption of this standard is not expected to have an impact on the Corporation's consolidated financial statements.

*IFRS 13 Fair Value Measurement (“IFRS 13”)*

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRS standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. This standard is to be applied prospectively. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

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**5. CASH**

	As at	
<i>(unaudited)</i>	<b>June 30,</b>	December 31,
<i>(CAD\$ thousands)</i>	<b>2012</b>	2011
Canadian dollars	\$ 45,211	\$ 73,512
US dollars	6,055	5,418
<b>Total cash</b>	<b>\$ 51,265</b>	<b>\$ 78,930</b>

**6. ACCOUNTS RECEIVABLE**

	As at	
<i>(unaudited)</i>	<b>June 30,</b>	December 31,
<i>(CAD\$ thousands)</i>	<b>2012</b>	2011
Trade receivables	\$ 7,927	\$ 6,390
Allowance for doubtful accounts	(58)	(58)
Net trade receivables	7,869	6,332
Other receivables	10,882	6,902
<b>Total accounts receivable</b>	<b>\$ 18,751</b>	<b>\$ 13,234</b>

The Corporation's accounts receivable are denominated in the following currencies:

	As at	
<i>(unaudited)</i>	<b>June 30,</b>	December 31,
<i>(CAD\$ thousands)</i>	<b>2012</b>	2011
Canadian dollars	\$ 13,345	\$ 9,481
US dollars	5,406	3,753
<b>Total accounts receivable</b>	<b>\$ 18,751</b>	<b>\$ 13,234</b>

Accounts receivables are classified as loans and receivables and are measured at amortized cost.

The Corporation does not hold any collateral in respect of trade and other receivables.

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**7. INVENTORIES**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at	
	<b>June 30, 2012</b>	December 31, 2011
Raw materials and supplies	\$ 20,388	\$ 49,076
Work in process	23,242	21,959
Finished goods	48,777	33,382
<b>Total inventories</b>	<b>\$ 92,407</b>	<b>\$ 104,417</b>

The amount of inventories recognized as cost of goods sold for the 26 weeks ended June 30, 2012 is \$1.0 billion (26 weeks ended July 2, 2011 - \$1.3 billion).

The cost of inventories recognized as cost of goods sold for the 26 weeks ended June 30, 2012 includes \$1.3 million write-downs of inventory to net realisable value (26 weeks ended July 2, 2011 - \$0.8 million).

There is no pledged collateral in respect of inventory.

**8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

**8.1 Capital risk management**

The Corporation's objectives in managing capital are to safeguard its ability to continue as a going concern and pursue its strategy of organizational growth to provide returns to its sole shareholder, the Government of Canada, and benefits to other stakeholders. The Corporation's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2011.

The capital structure of the Corporation consists of loans as detailed in Note 13 and other payables and shareholder's equity which is comprised of issued capital, accumulated other comprehensive income and retained earnings.

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The Corporation's senior management reviews the Corporation's capital structure periodically. As part of the review, senior management considers the cost of the capital and the associated risks in order to comply with the borrowing limits stipulated by the *Royal Canadian Mint Act*. The Corporation manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. The timing, terms and conditions of all borrowing transactions are approved by the Minister of Finance.

**8.2 Classification of financial instruments:**

8.2.1 The classification, as well as the carrying amount and fair value of the Corporation's financial assets and financial liabilities are as follows:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at			
	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair value	Carrying Amount	Fair value
<b>Financial Assets</b>				
<b>Held for Trading</b>				
Cash	\$ 51,265	\$ 51,265	\$ 78,930	\$ 78,930
Derivative financial assets	346	346	940	940
<b>Loans and receivables</b>				
Accounts receivable	18,751	18,751	13,234	13,234
<b>Financial Liabilities</b>				
<b>Held for Trading</b>				
Derivative liabilities	2,122	2,122	2,194	2,194
<b>Other Financial Liabilities</b>				
Accounts payable and accrued liabilities	50,178	50,178	71,369	71,369
Loans payable	10,474	10,480	10,475	10,482

The Corporation did not have any held-to-maturity or available-for-sale financial assets at the end of the reporting periods presented.

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The Corporation has estimated the fair values of its financial instruments as follows:

- i) The carrying amounts of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values as a result of the relatively short-term nature of these financial instruments.
- ii) The fair values of loans payables have been estimated based on a discounted cash flow approach using current market rates appropriate as at the respective date presented.
- iii) The fair values of the Corporation's foreign currency forward contracts, commodity swap and forward contracts and other derivative instruments are based on estimated credit-adjusted forward market prices. The Corporation takes counterparty risk and its own risk into consideration for the fair value of financial instruments.

### **8.3 Financial Risk Management Objectives and Framework**

The Corporation is exposed to credit risk, liquidity risk and market risk from its use of financial instruments.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Audit Committee assists the Board of Directors and is responsible for review, approval and monitoring the Corporation's risk management policies including the development of an Enterprise Risk Management program which involves establishing corporate risk tolerance, identifying and measuring the impact of various risks, and developing risk management action plans to mitigate risks that exceed corporate risk tolerance. The Audit Committee reports regularly to the Board of Directors on its activities.

#### **8.3.1 Credit risk management**

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers, cash and derivative instruments. The Corporation has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Corporation's exposure and the credit ratings of its counterparties are continuously monitored.

The carrying amount of financial assets recorded in the consolidated financial statements represents the maximum credit exposure.

### **8.3.2 Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk by continuously monitoring actual and forecasted cash flows to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

### **8.3.3 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or commodity price changes will affect the Corporation's income or the fair value of its financial instruments.

The Corporation uses derivative instruments, such as foreign currency forward contracts, interest rate exchange agreements and commodity swap and forward contracts to manage the Corporation's exposure to fluctuations in cash flows resulting from foreign exchange risk, interest rate risk and commodity price risk. The Corporation buys and sells derivatives in the ordinary course of business and all such transactions are carried out within the guidelines set out in established policies. The Corporation's policy is not to enter into derivative instruments for trading or speculative purposes.

### **Foreign Exchange Risk**

The Corporation is exposed to foreign exchange risk on sales and purchase transactions that are denominated in foreign currencies primarily including U.S. dollars, Euros and GBP. The Corporation manages its exposure to exchange rate fluctuations between the foreign currency and the Canadian dollar by entering into foreign currency forward contracts and by applying hedge accounting to certain qualifying contracts to minimize the volatility to profit or loss. The Corporation also uses such contracts in the process of managing its overall cash requirements.

### **Interest Rate Risk**

Financial assets and financial liabilities with variable interest rates expose the Corporation to cash flow interest rate risk. There is no interest rate risk related to cash as there are no short-term investments as at the dates presented. The Corporation's Bankers Acceptance interest rate swap loan instrument described in note 13 exposes the Corporation to cash flow interest rate risk. The Corporation has hedged 100% of the exposure to fluctuations in interest rates related to this instrument by entering into a \$15 million interest rate swap, where the Corporation pays a fixed



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interest rate in exchange for receiving a floating interest rate. The interest rate swap is designated as a hedging instrument under the cash flow hedge accounting model.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Corporation does not account for its fixed rate debt instruments as held for trading; therefore, a change in interest rates at the reporting date would not affect profit or loss with respect to these fixed rate instruments.

### **Commodity Price Risk**

The Corporation is exposed to commodity price risk on its purchase and sale of precious metals including gold, silver, platinum and palladium and base metals including nickel, copper and steel.

The Corporation is not exposed to precious metal price risk related to the bullion sales program because the purchase and sale of precious metals used in this program are completed on the same date, using the same price basis in the same currency.

The Corporation manages its exposure to commodity price fluctuations by entering into sales or purchase commitments that fix the future price or by entering into commodity swap and forward contracts that fix the future commodity price and by applying hedge accounting to these contracts to minimize the volatility to profit or loss.

Derivatives designated as a hedge of an anticipated or forecasted transaction are accounted for as cash flow hedges. The Corporation applies the normal purchases classification to certain contracts that are entered into for the purpose of procuring commodities to be used in production.

Therefore the impact of commodity price risk fluctuation on the consolidated financial statements is not significant because the Corporation's un-hedged commodity price risk is not significant.

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**8.4 Fair value measurements recognized in the consolidated statement of financial position**

The table below analyzes financial instruments carried at fair value, by valuation method. All the derivatives the Corporation has are classified as level 2 financial instruments. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at	
	June 30, 2012	December 31, 2011
<b>Derivative financial assets</b>		
Foreign currency forwards	\$ 346	\$ 940
	\$ 346	\$ 940
<b>Derivative financial liabilities</b>		
Commodity swaps	\$ 1,137	\$ 1,033
Foreign currency forwards	642	753
Interest rate swaps	343	408
	\$ 2,122	\$ 2,194

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**9. PROPERTY, PLANT AND EQUIPMENT**

The composition of the net book value of the Corporation's property, plant and equipment, is presented in the following tables:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	<b>June 30,</b> <b>2012</b>	December 31, 2011
Cost	\$ 307,911	\$ 287,445
Accumulated depreciation	(131,818)	(125,981)
Net book value	\$ 176,093	\$ 161,464

**Net book value by asset class**

Land and land improvements	\$ 3,177	\$ 3,191
Buildings	69,412	65,439
Plant and equipment	81,589	75,782
In process capital projects	21,915	17,052
Net book value	\$ 176,093	\$ 161,464

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Reconciliation of the opening and closing balances of property, plant and equipment for June 30, 2012:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	<b>Land and land improvements</b>	<b>Buildings</b>	<b>Plant and equipment</b>	<b>Capital projects in process</b>	<b>Total</b>
<b>Cost</b>					
Balance at January 1, 2011	\$ 4,094	\$ 66,229	\$ 186,289	\$ 4,942	\$ 261,554
Additions	-	5,512	6,259	16,873	28,644
Transfers	-	108	4,655	(4,763)	-
Disposals	-	(1,189)	(1,564)	-	(2,753)
Balance at December 31, 2011	4,094	70,660	195,639	17,052	287,445
Additions	-	1,069	2,650	17,475	21,194
Transfers	-	4,390	8,222	(12,612)	-
Disposals	-	(58)	(670)	-	(728)
<b>Balance at June 30, 2012</b>	<b>\$ 4,094</b>	<b>\$ 76,061</b>	<b>\$ 205,841</b>	<b>\$ 21,915</b>	<b>\$ 307,911</b>
<b>Accumulated depreciation</b>					
Balance at January 1, 2011	\$ 876	\$ 2,547	\$ 111,945	\$ -	\$ 115,368
Depreciation	27	2,674	9,436	-	12,137
Disposals	-	-	(1,524)	-	(1,524)
Balance at December 31, 2011	903	5,221	119,857	-	125,981
Depreciation	14	1,428	5,065	-	6,507
Disposals	-	-	(670)	-	(670)
<b>Balance at June 30, 2012</b>	<b>\$ 917</b>	<b>\$ 6,649</b>	<b>\$ 124,252</b>	<b>\$ -</b>	<b>\$ 131,818</b>
<b>Net book value at June 30, 2012</b>	<b>\$ 3,177</b>	<b>\$ 69,412</b>	<b>\$ 81,589</b>	<b>\$ 21,915</b>	<b>\$ 176,093</b>

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

No indicators of impairment were found for property, plant and equipment as at June 30, 2012.

No asset is pledged as security for borrowings as at June 30, 2012.

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**10. INVESTMENT PROPERTY**

	As at	
<i>(unaudited)</i>	<b>June 30,</b>	December 31,
<i>(CAD\$ thousands)</i>	<b>2012</b>	2011
Cost	\$ 236	\$ 236

The fair value of the land is \$2.6 million at June 30, 2012 as determined by an independent appraiser. The valuation was arrived at by reference to market prices for similar properties in the relevant location. The valuation will be carried out every 3 to 5 years or when there is significant change in the market price.

The Corporation's investment property is held under freehold interests.

No indicators of impairment were found for investment property as at June 30, 2012.

**11. INTANGIBLE ASSETS**

	As at	
<i>(unaudited)</i>	<b>June 30,</b>	December 31,
<i>(CAD\$ thousands)</i>	<b>2012</b>	2011
Cost	\$ 26,979	\$ 24,167
Accumulated depreciation	<b>(18,219)</b>	(16,653)
Net book value	\$ 8,760	\$ 7,514

The Corporation's intangible assets contain mainly software for internal use or for providing services to customers.

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Reconciliation of the opening and closing balances of intangibles for June 30, 2012:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	<b>Software</b>	<b>Trademarks</b>	<b>Capital Projects in process</b>	<b>Total</b>
<b>Cost</b>				
Balance at January 1, 2011	\$ 19,392	\$ -	\$ 1,525	\$ 20,917
Additions	874	-	2,376	3,250
Transfers	751	-	(751)	-
Balance at December 31, 2011	21,017	-	3,150	24,167
Additions	44	-	2,768	2,812
Transfers	554	-	(554)	-
<b>Balance at June 30, 2012</b>	<b>\$ 21,615</b>	<b>\$ -</b>	<b>\$ 5,364</b>	<b>\$ 26,979</b>
<b>Accumulated depreciation</b>				
Balance at January 1, 2011	\$ 13,931	\$ -	\$ -	\$ 13,931
Depreciation	2,722	-	-	2,722
Balance at December 31, 2011	16,653	-	-	16,653
Depreciation	1,566	-	-	1,566
<b>Balance at June 30, 2012</b>	<b>\$ 18,219</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,219</b>
<b>Net book value at June 30, 2012</b>	<b>\$ 3,396</b>	<b>\$ -</b>	<b>\$ 5,364</b>	<b>\$ 8,760</b>

No indicators of impairment were found for intangible assets as at June 30, 2012.

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**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at	
	June 30, 2012	December 31, 2011
Canadian dollars	\$ 48,345	\$ 69,543
US dollars	1,832	1,561
Euros	1	265
Total accounts payable and accrued liabilities	\$ 50,178	\$ 71,369

Accrued liabilities include the liability to Department of Finance which is disclosed in Note 20 in detail.

**13. LOANS PAYABLE**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at	
	June 30, 2012	December 31, 2011
Banker's Acceptance	\$ 10,470	\$ 10,471
Accrued interest	4	4
Total loans payable	\$ 10,474	\$ 10,475
Current	\$ 1,504	\$ 1,504
Non-current	8,970	8,971
Total loans payable	\$ 10,474	\$ 10,475

The 10 year CAD\$ 15 million Bankers' Acceptance/Interest rate swap loan bears an interest rate at 2.67% with maturity in 2018. The Corporation hedges the loan for interest rate risk via an interest rate swap exchanging fixed rate interest for variable rate interest. The structure of the loan involves the use of a revolving 3 month Bankers Acceptances and an Interest Rate Swap to lock in the BA refinancing. The loan gets paid down \$1.5 million per year for 10 years. The balance of the principal is \$10.5 million and the fair value of the loan is \$10.5 million as at June 30, 2012. The loan is unsecured.

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**14. DEFERRED REVENUE**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at	
	June 30, 2012	December 31, 2011
Customer prepayment (i)	\$ 8,849	\$ 5,868
Subscription program (ii)	261	315
Total deferred revenue	\$ 9,110	\$ 6,183
Current	\$ 9,110	\$ 6,183
Total deferred revenue	\$ 9,110	\$ 6,183

(i) The deferred revenue arises when customers prepay the cost of purchasing materials in order to lock the purchasing price, primarily metals. The deferred revenue will be recognized as revenue when the shipments are made.

(ii) The deferred revenue arises from the Corporation's subscription program. The customer makes the prepayment to lock the purchasing price and will receive a predetermined set of products over certain duration of time. The deferred revenue will be recognized as revenue when the individual product within the subscription is shipped.

**15. INCOME TAXES**

**Current tax expense**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Current income tax expense	\$ 1,895	\$ 2,756	\$ 4,048	\$ 5,408
Adjustments for prior years	-	78	-	78
Total current tax expense	\$ 1,895	\$ 2,834	\$ 4,048	\$ 5,486



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**Current tax assets and liabilities**

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<i>(unaudited)</i>	As at	
<i>(CAD\$ thousands)</i>	<b>June 30,</b>	December 31,
	<b>2012</b>	2011
<b>Current tax assets</b>		
Income taxes receivable	\$ 4,915	\$ 3,473

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**16. EMPLOYEE BENEFITS**

**i) Pension benefits**

Substantially all of the employees of the Corporation are covered by the Public Service Pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. Total contributions of \$3.6 million were recognized as expense in the 26 weeks ended June 30, 2012 (26 weeks ended July 2, 2011 - \$5.5 million).

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

**ii) Other Post-Employment Benefits**

The Corporation provides severance benefits to its employees and also provides supplementary retirement benefits including post retirement benefits and post retirement insurance benefits to certain employees. The benefits are accrued as the employees render the services necessary to earn them. These benefits plans are unfunded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation.

There were no past service costs or curtailments in the 26 weeks ended June 30, 2012.

**iii) Other Long-term Employee Benefits**

The Corporation's other long-term benefits include benefits for employees in receipt of long-term disability benefits, sick leave and special leave benefits and worker's compensation benefits. These

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benefits plans are unfunded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation.

Employee benefits obligation at reporting date:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	As at	
	June 30, 2012	December 31, 2011
Post employment benefits	\$ 7,477	\$ 7,608
Other long-term employee benefits	3,364	3,364
<b>Total employee benefits obligation</b>	<b>\$ 10,841</b>	<b>\$ 10,972</b>

Employee benefits expenses were as follows:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
<b>Post employment benefits</b>				
Pension benefits contribution	\$ 3,556	\$ 3,189	\$ 6,152	\$ 5,447
Other post employment benefits	27	2,292	131	2,537
<b>Total employee benefits expenses</b>	<b>\$ 3,582</b>	<b>\$ 5,481</b>	<b>\$ 6,284</b>	<b>\$ 7,984</b>

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**17. REVENUE**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	<b>June 30,</b> <b>2012</b>	July 2, 2011	<b>June 30,</b> <b>2012</b>	July 2, 2011
Revenue from the sale of goods	\$ 538,292	\$ 666,817	\$ 1,076,952	\$ 1,323,579
Revenue from the rendering of services	3,624	3,190	7,657	6,056
<b>Total Revenue</b>	<b>\$ 541,916</b>	<b>\$ 670,007</b>	<b>\$ 1,084,609</b>	<b>\$ 1,329,635</b>

**18. DEPRECIATION AND AMORTIZATION EXPENSES**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	<b>June 30,</b> <b>2012</b>	July 2, 2011	<b>June 30,</b> <b>2012</b>	July 2, 2011
Depreciation of property, plant and equipment	\$ 3,341	\$ 2,980	\$ 6,508	\$ 5,920
Amortization of intangible assets	850	696	1,566	1,364
<b>Total depreciation and amortization expenses</b>	<b>\$ 4,191</b>	<b>\$ 3,676</b>	<b>\$ 8,074</b>	<b>\$ 7,284</b>

Depreciation and amortization expenses were reclassified to other operating expenses as follows:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	<b>June 30,</b> <b>2012</b>	July 2, 2011	<b>June 30,</b> <b>2012</b>	July 2, 2011
Cost of goods sold	\$ 2,836	\$ 2,575	\$ 5,532	\$ 5,109
Marketing and Sales expenses	542	441	1,017	870
Administration expenses	813	661	1,525	1,305
<b>Total depreciation and amortization expenses</b>	<b>\$ 4,191</b>	<b>\$ 3,676</b>	<b>\$ 8,074</b>	<b>\$ 7,284</b>

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**19. SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT EXPENSES, NET**

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	<b>June 30,</b> <b>2012</b>	July 2, 2011	<b>June 30,</b> <b>2012</b>	July 2, 2011
Research and development expenses	\$ 2,016	\$ 1,323	\$ 3,873	\$ 2,574
Scientific research and development credit	(716)	(1,098)	(866)	(1,198)
Research and development expenses, net	\$ 1,300	\$ 225	\$ 3,008	\$ 1,376

The net expenses of research and development were included in the administration expenses in the consolidated statement of comprehensive income.

**20. 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. In accordance with disclosure exemption regarding “government related entities”, the Corporation is exempt from certain disclosure requirements of IAS 24 relating to its transactions and outstanding balances with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Based on this exemption, as the Corporation has not entered into any transactions with these related parties which are considered to be individually or collectively significant, the Corporation has not disclosed any details of its transactions with:

- The Government of Canada, and departments thereof
- All federal Crown corporations

Transactions with the Department of Finance (“DOF”) related to the production, management and delivery of Canadian circulation coins are negotiated and measured at fair value under a three year Memorandum of Understanding, where pricing is agreed annually in the normal course of operations.

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The revenues related to the transactions with Department of Finance are as follows:

<i>(unaudited)</i> <i>(CAD\$ thousands)</i>	13 weeks ended		26 weeks ended	
	<b>June 30,</b> <b>2012</b>	July 2, 2011	<b>June 30,</b> <b>2012</b>	July 2, 2011
Revenue from DOF	\$ 25,277	\$ 23,413	\$ 55,159	\$ 44,273

Due to the retrospective application of IAS 16 at the date of transition to IFRS, depreciation expenses that have been charged under Canadian GAAP to the Department of Finance at a rate in excess of actual depreciation expenses incurred under IAS 16 have been adjusted by the amount of \$8.2 million. This amount is included in Accounts Payable and Accrued Liabilities on the consolidated statement of financial position since it could be reimbursable on demand to DOF. Starting in 2011, the Corporation will reduce the future billings to the Department of Finance by \$0.5 million a year for 16 years until the total amount of the outstanding liability is eliminated. The Corporation has reduced the billing to the Department of Finance by \$0.5 million and the remainder of \$7.7 million will be deducted in future billings.

## 21. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### 21.1 Precious metal leases

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Corporation may enter into firm fixed price purchase commitments, as well as precious metals leases. As at June 30, 2012, the Corporation had \$63.0 million precious metal purchase commitments outstanding (December 31, 2011 – \$14.4 million). At the end of the period, the Corporation had entered into precious metal leases as follows:

<i>(unaudited)</i> <i>Ounces</i>	As at	
	<b>June 30,</b> <b>2012</b>	December 31, 2011
Gold	6,000	9,313
Silver	6,524,300	9,420,209
Platinum	7,630	-

The fees for these leases are based on market value. The precious metal lease payment expensed for the 26 weeks ended June 30, 2012 is \$1.6 million (26 weeks ended July 2, 2011 - \$3.3 million). The value of the metals under these leases has not been reflected in the Corporation's consolidated financial statements since the Corporation intends to settle these commitments through receipt or delivery of the underlying metal.

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**21.2 Base metal commitments**

In order to facilitate the production of circulation and non-circulation coins (for Canada and other countries) and manage the risks associated with changes in metal prices, the Corporation may enter into firm fixed price purchase commitments. As at June 30, 2012, the Corporation had \$51.6 million (December 31, 2011 - \$50.2 million) in purchase commitments outstanding.

**21.3 Trade finance bonds and bank guarantees**

The Corporation has various outstanding bank guarantees and trade finance bonds associated with the production of foreign circulation coin contracts. These were issued in the normal course of business. The guarantees and bonds are delivered under standby facilities available to the Corporation through various financial institutions. Performance guarantees generally have a term up to one year depending on the applicable contract, while warranty guarantees can last up to five years. Bid bonds generally have a term of less than three months, depending on the length of the bid period for the applicable contract. The various contracts to which these guarantees or bid bonds apply generally have terms ranging from one to two years. Any potential payments which might become due under these commitments would relate to the Corporation's non-performance under the applicable contract. The Corporation does not anticipate any material payments will be required in the future. As of June 30, 2012, under the guarantees and bid bonds, the maximum potential amount of future payments is \$7.8 million. It was \$12.2 million as of December 31, 2011.

**21.4 Other commitments and guarantees**

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

The Corporation has committed as at June 30, 2012 to spend approximately \$43 million (December 31, 2011 - \$19.5 million) on capital projects.

The Corporation has other various lease and contractual purchase obligations for goods and services. As of June 30, 2012 these future commitments are \$27.6 million in total (December 31, 2011 - 23.9 million). These Commitments will be completed by November 2017.

There are various legal claims against the Corporation. Claims that are uncertain in terms of the outcome or potential outflow or that are not measurable are considered to be a contingency and are not recorded in the Corporation's consolidated financial statements. There is no contingent liability as of June 30, 2012 or December 31, 2011.

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There have been no other material changes to the Corporation's commitments, contingencies and guarantees since December 31, 2011.

**22. RECLASSIFICATION**

Certain comparative information provided for prior periods has been reclassified to conform to the presentation adopted as of June 30, 2012.