

CHANGE YOUR PERCEPTION

2000 Annual Report



Royal Canadian
Mint

Monnaie royale
canadienne

Financial and operating highlights

	2000	1999	% change
Key financial highlights (in millions of dollars)			
Revenue*	302.6	584.4	(48.2)
Income before income tax*	8.7	22.0	(60.5)
Net income**	5.6	21.7	(74.2)
Total assets	182.6	180.6	1.1
Capital expenditures	14.0	30.3	(53.8)
Cash flows from operating activities	2.2	43.8	(95.0)

Key operating highlights

Circulation coins produced (in millions of pieces)	3,955.5	3,514.2	12.6
Gold bullion sales (in thousands of ounces)	125.6	758.3	(83.4)
% of contribution margin from new products	24%	31%	-
Number of employees	698	745	(6.3)

Key performance measures

Gross profit (in millions of dollars)	78.5	91.2	(13.9)
Value-added sales revenue per employee***	146.0	182.0	(19.8)
Pre-tax return on equity	9.3%	27.5%	-
Debt to equity ratio	0.40:1	0.46:1	-
Shareholder's equity (in millions of dollars)	96.2	91.0	5.7

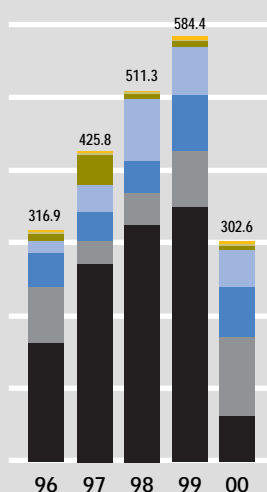
* Decrease largely due to the decline in bullion.

** The Mint's effective tax rate rose to 33% (zero-1999 and prior) due to 1999 depletion of loss carry-forwards.

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

Revenue (segmented)

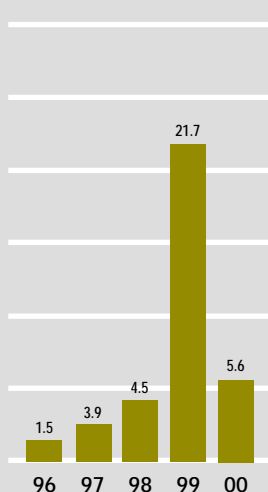
(\$ in millions)



- Bullion
- Canadian circulation
- Canadian numismatic
- Foreign circulation
- Foreign numismatic
- Refining services
- Other

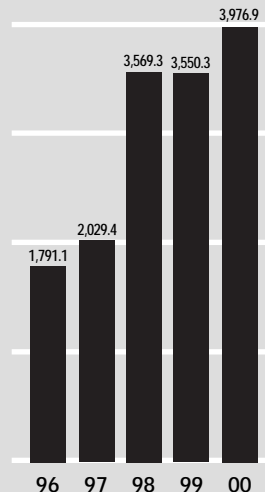
Net income

(\$ in millions)



Total production

(millions of pieces)



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Royal Canadian Mint
520 Lagimodière Boulevard
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Royal Canadian Mint at-a-glance

Profile/segment description

2000 Revenue

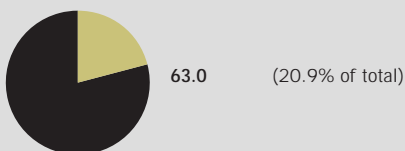
The Royal Canadian Mint produces all of the circulation coins used in Canada and manages the supporting distribution systems for the Government of Canada. The Mint is one of the world's foremost producers of circulation, collector and bullion investment coins for the domestic and international marketplace. It is also one of the largest gold refiners in the world.

Total revenue (% by segment)



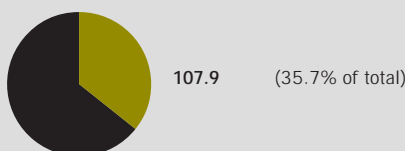
Bullion products
Gold and silver bullion investment products

Bullion revenue (\$ in millions)



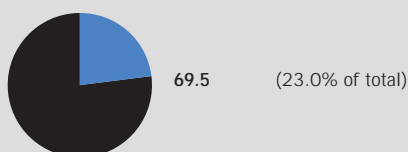
Canadian circulation coins
Coins for business transactions in Canada

Canadian circulation coin revenue (\$ in millions)



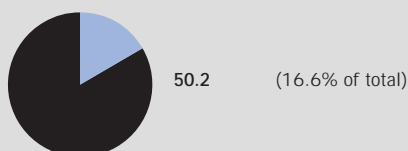
Canadian numismatic coins
Canadian precious and base metal collector coins

Canadian numismatic coin revenue (\$ in millions)



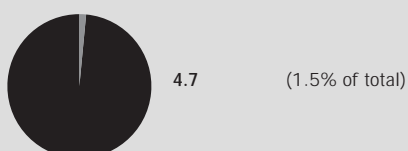
Foreign circulation coins
Coins for business transactions produced for foreign countries

Foreign circulation coin revenue (\$ in millions)



Foreign numismatic coins
Precious and base metal collector coins produced for foreign countries

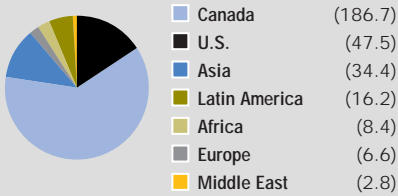
Foreign numismatic coin revenue (\$ in millions)



2000 Key statistics

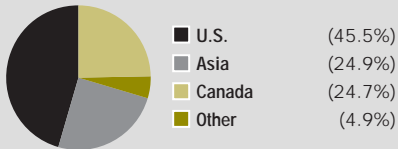
Segment highlights

Revenue by region (\$ in millions)



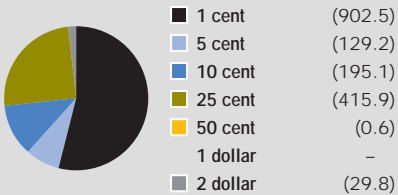
Global penetration

Bullion revenue (% by region)



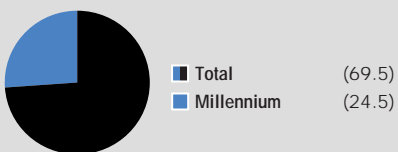
Continued global presence during market downturn

Canadian circulation coins (millions of pieces)



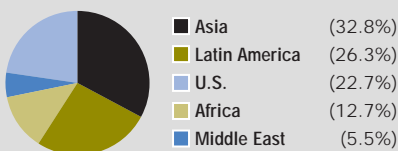
Continued higher than normal 25¢ volumes due to success of Millennium program

Canadian numismatic coin revenue (\$ in millions)



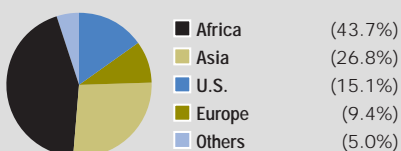
Continued significant success of Millennium program

Foreign circulation coin revenue (% by region)



Continued success in traditional markets

Foreign numismatic coin revenue (% by region)



Continued global presence



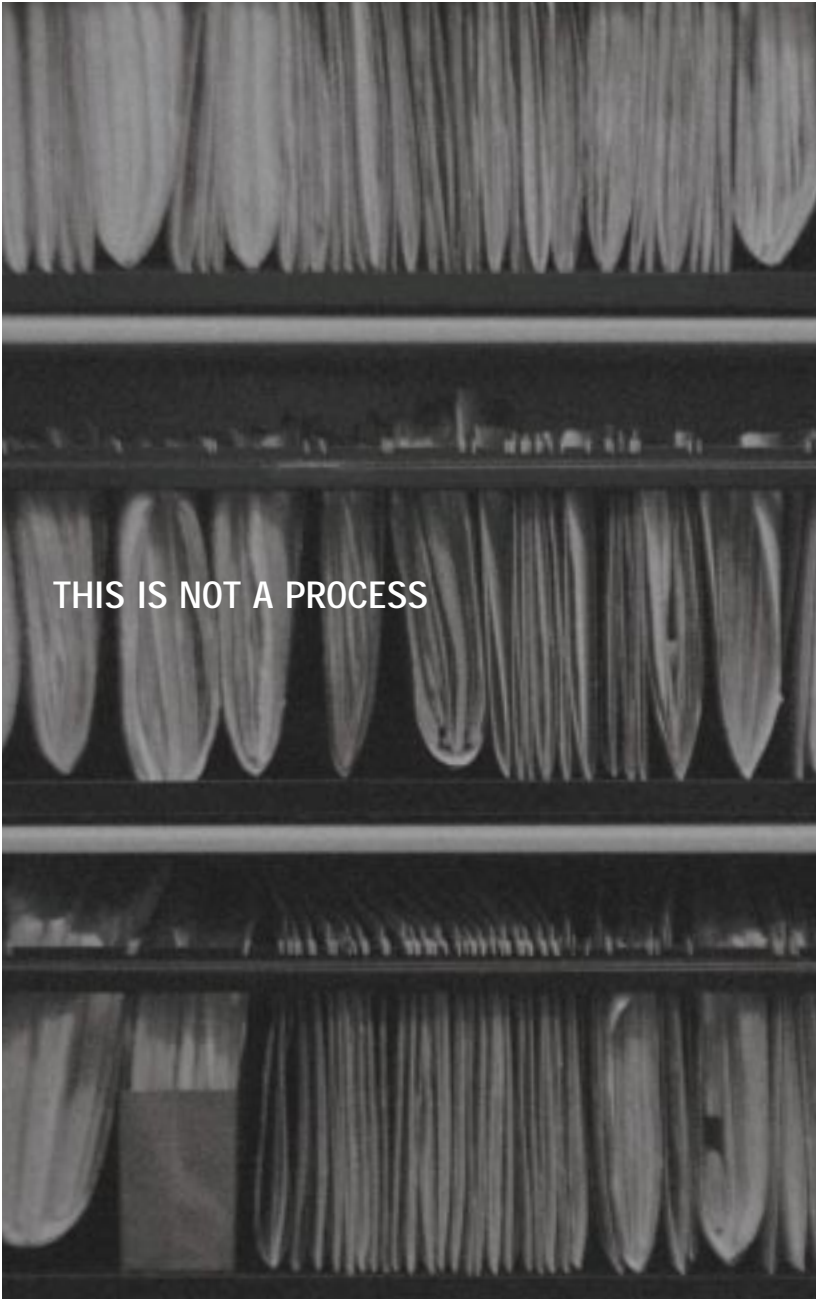
THIS IS NOT A CONSUMER





THIS IS A NEW MARKET

Throughout 2000, the Mint's Millennium coin series continued to captivate Canadians and open doors to a broader community of collectors. By introducing a new 25-cent circulation coin in a different region of the country each month, the Mint directly engaged citizens in its Millennium celebration, thereby raising its profile and enacting its role of promoting Canada to Canadians. An Angus Reid study revealed that, by the second half of the year, 95 percent of citizens were aware of the coin series. The groundbreaking program exceeded expectations over its two-year duration by generating demand for over 650 million Millennium 25-cent circulation pieces, and by generating revenues of \$60 million through numismatic sales. On the numismatic front, the Mint continued to expand and strengthen its retail channels in 2000, including making Millennium collectibles available through food outlets such as Loblaws and Safeway. The total number of gift and souvenir outlets carrying Mint products rose to 500 over the course of the year.





THIS IS EFFICIENCY

By unifying its information technology systems and taking full advantage of ISO practices, the Mint made significant efficiency gains in 2000. The Mint completed development of a sophisticated Enterprise Resource Planning (ERP) system, ensuring its ongoing ability to achieve operational excellence. Built on the foundation of the Mint's existing system for business-process control, the ERP solution integrates purchasing, manufacturing, marketing and sales, finance, and IT systems within a single network. It is designed to improve communication between departments and enable rapid, responsive decision-making. The Mint also improved the efficiency of its plant operations in 2000 through value-stream mapping—a new component of its lean-manufacturing initiative—and through ISO 9000 quality-assurance processes. ISO yielded a number of measurable benefits in 2000. Owing to pre-approval of suppliers' quality standards, supplied materials were no longer subject to individual inspection, resulting in significant time and cost savings. Through ISO, the Ottawa plant standardized its quality controls for coin striking, reducing rejection rates in the press room by up to 10 percent.



THIS IS NOT AN EMPLOYEE





THIS IS A COMPETITIVE ADVANTAGE

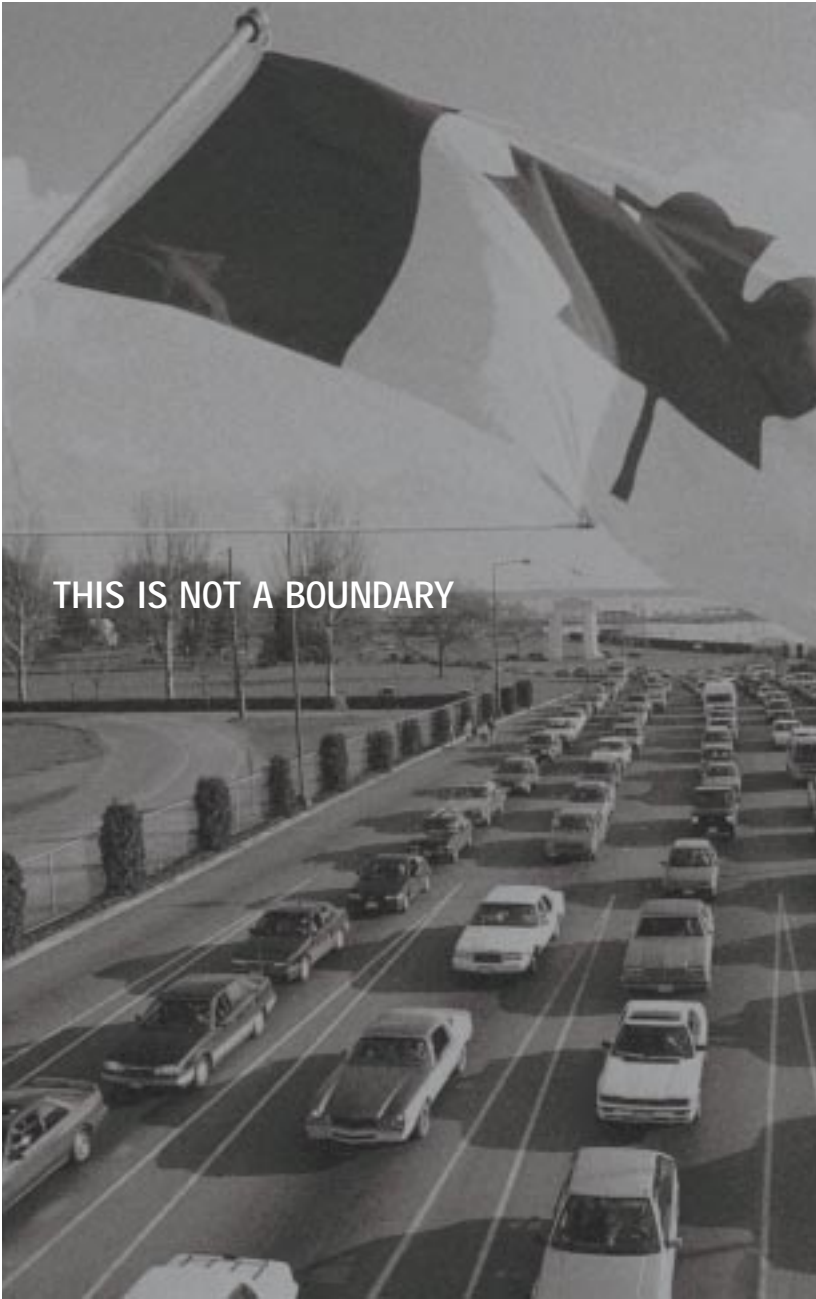
Acting on its conviction that the fundamental value of every organization resides in the people who work there, the Mint continued in 2000 to encourage collaboration among employees, and to foster dedication towards its goal of being a world leader in minting. An internal survey showed that the Corporation's efforts were successful: 88 percent of employees reported a spirit of cooperation between departments; 96 percent said they were proud to work for the Mint. Over the course of the year, the Corporation once again supported its commitment to knowledge-building by devoting four percent of its payroll to training activities. *The Globe and Mail* recognized the Mint's ongoing efforts to remain a vital, vibrant workplace by ranking it among the "35 Best Companies To Work For in Canada", according to the newspaper's *Report on Business Magazine*. This standing, determined through a survey conducted by Hewitt Associates, was achieved amid considerable competition, and is a welcome affirmation of the Mint's corporate-culture endeavours. Findings were based on an employee survey, an evaluation of key practices such as recruiting and hiring, and on the corporate philosophy of the chief executive officer. The Mint is, in fact, the first Crown Corporation to receive such a distinction.





THIS IS ADVANCED TECHNOLOGY

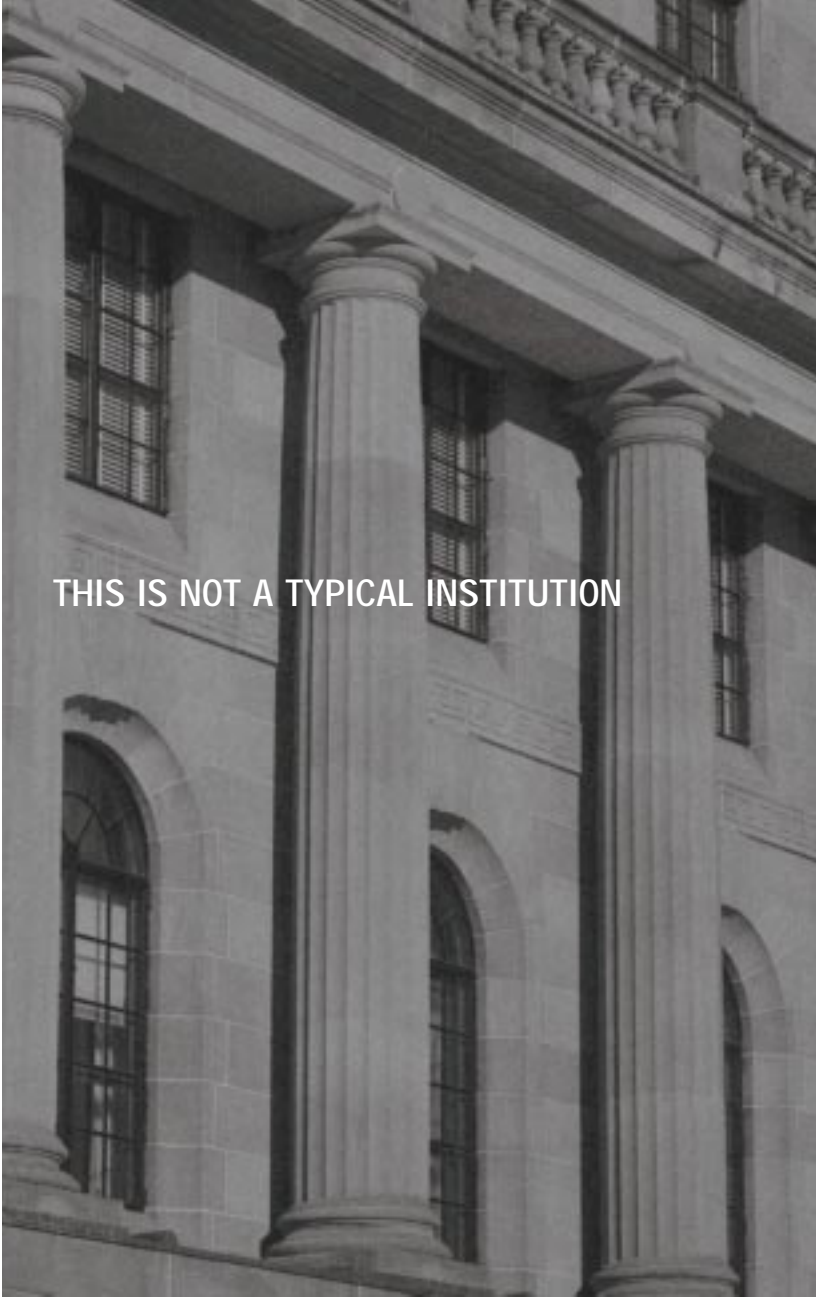
Combining a history of minting expertise with technological innovation, the Mint opened its world-leading plating facility in April 2000—ahead of schedule and under budget. The 59,000 square-foot plant, integrated within the Mint’s manufacturing site in Winnipeg, promises to yield savings of \$10 million annually on the production of Canadian circulation coins. By the end of 2000, the facility had produced 200 million coin blanks and undertaken its first two contracts for foreign circulation coins. The plating facility employs processes and technologies developed and owned exclusively by the Mint. These patented technologies present an opportunity for the Mint to generate profits not only through plating services but also through technology transfers. In 2000, discussions were held with countries interested in acquiring the Mint’s plating technology for their own domestic operations.





THIS IS AN OPEN MARKET

The Mint produced more foreign circulation coins in 2000 than in any previous year of its history. Some 2.3 billion coins—all minted at the Corporation's Winnipeg facility—were shipped to 19 countries around the world, providing excellent opportunities for the Mint to expand its customer base. This achievement underscores the organization's flexibility and capacity for seizing opportunities in the often unpredictable foreign circulation coinage marketplace. That flexibility is further evident in the fact that, beyond sustaining high levels of foreign circulation coinage output, the Mint's Winnipeg facility produced significant volumes of Canadian coinage in 2000, reaching a record production level of approximately four billion foreign and domestic pieces. Last year, demand for gold bullion fell as expected following the unusually high sales of 1999, which were spurred by anxieties about the calendar change to the year 2000. The Mint continues to maintain a strong position in global bullion markets.



THIS IS NOT A TYPICAL INSTITUTION





THIS IS THE MINT

The Mint is mandated to be profitable and self-sufficient. In addition to the Millennium program, the Corporation undertook several initiatives in 2000 to meet these objectives and lay a foundation for long-term success. Throughout 2000, the Mint introduced innovative products that generated significant sales, demonstrating its ability to discern and address new markets. Among these products were the Mint's second hologram coins, two colourized coins, and a variety of pieces designed around the theme of the Chinese lunar calendar, including a gold wafer and a wristwatch. Several of these collectibles sold out, some in a matter of weeks. Building on these experiences, and those gained through the success of the Millennium program, the Mint will continue to develop coins and collectibles of exceptional quality and value, and persist in realizing its vision of profitability and leadership.

Message from the President

The past year was both eventful and exciting for the Royal Canadian Mint. The success of phase two of the Millennium coin program validated our grassroots approach to developing new products and reaching out to new collectors. It brought about a change in public perception of the Mint, and changed our own perception of how to identify and pursue new opportunities. Both perspectives will help define our approach as we return to more traditional levels of activity and explore emerging business prospects in the year to come.

Inspiration

The Millennium program demonstrated a measure of entrepreneurial daring on the part of the Mint: it is a rare event for an entire series of circulation coins to be designed by members of the public. By involving Canadians so directly in the coin-making process, the Mint gained considerable public awareness.

While we fully intend to build on this awareness throughout 2001, we recognize the challenges involved in doing so. The Millennium program was a special event in the history of the Mint; transferring its impact to our daily business will require creativity in product development and marketing, and the inventive use of new technologies.

The news that the Mint has been identified as one of the “35 Best Companies To Work For in Canada” further raised the Corporation’s profile. I am particularly proud of this achievement, because it is the result of our long-term efforts to create an environment of trust, respect, ingenuity and participation within the Mint.

2000 was a record-breaker for foreign circulation coinage production at the Mint. Yet international competition for foreign circulation coinage has continued to intensify considerably, and we acknowledge the efforts we will have to make to continue our leading role in this market.

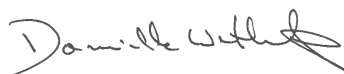
Innovation

I am excited by the opportunities made possible by the opening of our new plating facility in April 2000. Its patented processes allow us to meet our objective of producing a cost-effective supply of Canadian circulation coinage. Its processes also comprise a technological asset that the Mint may share with partners in other countries through transfers of technology.

I am also pleased by our efforts in 2000 to address fundamental issues of efficiency and performance to increase the Corporation's global competitiveness. Through ISO quality assurance and a lean manufacturing initiative, our production processes became more efficient and cost-effective over the course of the year. An Enterprise Resource Planning system was implemented in 2000 to provide us with unprecedented insights into our operational costs and organizational efficiency.

Expectation

The success of the Millennium program taught us a great deal about the Mint's ability to envision opportunities and realize them effectively. We will continue to use what we have learned to diversify our business and maintain our leadership in an increasingly competitive industry. I am sincerely delighted at the progress we made in 2000 and am confident that, collectively, we will be able to redouble our efforts and meet the challenges of the post-Millennium year to come.



Danielle V. Wetherup
President and Master of the Mint

Message from the Chair

2000 was my first complete year as Chair of the Board, and the experience has been extremely positive and rewarding.

A key focus of Board activities in 2000 was to build consensus around the strategic issues that concern us going forward. As part of this work, the Board took the significant step of agreeing on a framework for evaluating its own performance.

Upholding the Board's commitment to community involvement in 2000, I attended as many Millennium coin launches as possible. Consistently, these events filled me with a sense of honour and pride, both in our organization and in the country it serves.

I also participated in the Mint Directors' World Conference in Australia, where I had the opportunity to see first-hand how highly the Royal Canadian Mint is regarded internationally. The Board is determined to ensure that the Mint maintains its global stature in 2001 and beyond.

The Board is also determined, in the wake of the Millennium program, to ensure that the Mint maintains a strong strategic focus as it develops new products and initiatives. We worked closely with the senior management throughout 2000, and plans are in place to ensure that the Mint's business initiatives both support and pursue the Corporation's long-term objectives.



Emmanuel Triassi

Chairperson

Note on Governance

The Mint's Board of Directors took several steps in 2000 to improve its capacity for making rapid, collaborative, strategic decisions. It worked to promote greater openness and idea-sharing among members, and approved an evaluation framework for measuring its own performance. This framework will enable the Board to examine its efficiency and to regularly assess the value it adds to the Corporation. Part of that value in 2000 was helping to raise the public profile of the Mint through increased visibility of the Board itself. Members attended numerous events throughout the year and industry symposia. The Board enjoyed a sound working relationship with the senior management of the Mint in 2000; both groups continued their dialogue on strategic directions for the Corporation to take following the conclusion of the Millennium coin program.

Directors and Officers

Board of Directors



Emmanuel Triassi
President and Principal
of GROUP TEQ
and GROUP STEL,
President of ACMON Inc.
Westmount, Québec
*Chairperson,
Board of Directors*



Danielle V. Wetherup
*President and Master of
the Mint*



Timothy J. Spiegel
Principal, Spiegel, Skillen
& Associates
Kelowna,
British Columbia
*Chair, Corporate
Governance Committee*



Charles F.M. Ross,
H.B.A., L.L.B.
London, Ontario
*Chair,
Audit Committee*



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



Diane Marleau
Vice-President of Étude
Économique Conseil
Montréal, Québec



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



Judith A. Kavanagh
Consultant,
Montréal, Québec



Ernie Gilroy
President,
Home Securities
Insurance Services
Winnipeg, Manitoba

Senior Officers



Jean-Pierre Tremblay
*Vice-President
Manufacturing*



Donald Burke
*Vice-President
Marketing and Sales*



Beverley A. Lepine
*Vice-President
Administration
and Finance*



Brian Legris
*Vice-President
Human Resources*



Diana J. Beattie
*Vice-President
Corporate Planning
and Affairs*



Marguerite F. Nadeau
*General Counsel and
Corporate Secretary*



Diane Plouffe Reardon
*Executive Director
Communications*

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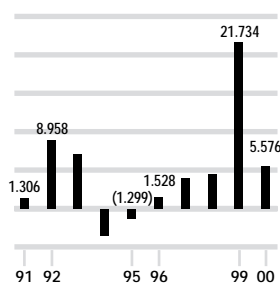
Management's discussion and analysis

Consolidated results of operations

The Royal Canadian Mint earned a net income of \$5.6 million in 2000, a decline from \$21.7 million in 1999, a year in which the Mint earned the second-highest earnings in its history. Revenue for the year declined by \$281.8 million to \$302.6 million, mirroring a \$285.7 million decline in revenue from the Mint's bullion products. Demand for gold declined significantly in 2000 as the Year 2000 fears that had spurred unusually high sales in 1999 proved unfounded.

The substantial earnings in 1999 depleted the Mint's loss carry-forwards, causing its effective tax rate to rise from zero to 33.0%. The Mint earned a pre-tax income of \$8.7 million in 2000.

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



The year 2000 marked the successful completion of the Mint's two-year Millennium coin program. This program not only generated \$60.5 million in revenue in 1999 and 2000, it also captured the imagination of thousands of Canadians, bringing more than 40,000 new names to the Mint's customer roster and prompting the rapid development of a broad network of retail distribution relationships across the country.

At the same time, the Mint produced a record 2.3 billion foreign coins and blanks in 2000 (1.8 billion - 1999). The Mint's long history of meeting a wide range of specifications and tolerances for foreign clients gave it the experience to assist the United States Mint in resolving both capacity and technical issues in its minting program during the year. Contracts with the United States Mint provide evidence of the Mint's capacity and flexibility as well as its global reputation for quality.

The major factors behind the year's results include:

- Sales of the Mint's Gold Maple Leaf coins and wafers declined 83.4% to 125,630 ounces in 2000 (758,313 ounces - 1999), causing revenues from GML products to decline to \$54.2 million (\$329.6 million - 1999). Sales of the Mint's Silver Maple Leaf coins also declined significantly.
- Popularity for the Mint's Millennium circulation coins remained strong. Although 2000 was the second year of the program, demand for the coins exceeded expectations, pushing revenue from Canadian circulation coins to \$107.9 million, a 37.6% increase from \$78.4 million in 1999.
- Revenue from foreign circulation coins and blanks declined 24.4% to \$50.2 million from \$66.4 million in 1999 despite the record production levels, due to the large volume of blanks produced. Blanks generate lower revenue than coins.

Management's discussion and analysis

- Revenue from Canadian numismatic products declined 8.8% to \$69.5 million from \$76.2 million in 1999, a more modest decline than anticipated. Demand for the Millennium coins remained stronger than the Mint typically experiences during the second year of programs of this kind.

The Mint continued to strive to improve its operations and enhance its creative capabilities. Capital expenditures totaled \$14.0 million, including \$8.4 million on improvements to the manufacturing facilities and \$2.4 million to complete the plating facility. At the same time, both Winnipeg and Ottawa embraced "lean manufacturing," a leading-edge management and operating technique that aims to eliminate constraints in the flow of materials through the plants while shifting manufacturing schedules to produce just-in-time. The Mint also implemented a sophisticated Enterprise Resource Planning (ERP) system that integrated computer systems and business processes across the Corporation.

Revenue

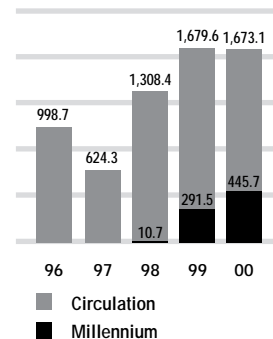
Total revenue for 2000 was \$302.6 million, a 48.2% decline from \$584.4 million in 1999. The decline can be attributed largely to the 81.9% decline in revenue from bullion and a 24.4% decline in foreign circulation revenue offset by a 37.6% increase in revenue from Canadian circulation coins.

Canadian circulation coins: Revenue from the production of Canadian circulation coins was \$107.9 million compared to \$78.4 million in 1999. The Mint continued the Millennium program in 2000 with the release of a new 25-cent coin every month, producing 445.7 million 25-cent and \$2 coins in 2000, a 52.9% increase over the production of Millennium coins in 1999 (291.5 million coins). The continued strength of the Millennium circulation program, hand-in-hand with strong foreign demand, pushed production in Winnipeg to a record 4.0 billion coins and blanks (3.5 billion - 1999).

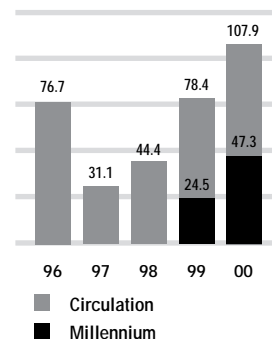
The Mint produces circulation coins under contract to the Canadian government to meet the demands of the Canadian public. Total demand for the seven denominations of Canadian coinage remained stable at 1.7 billion coins. The change in revenue reflects a change in the mix of denominations issued. Of the coins issued during the year, 3.2 million five-cent coins were produced at the new plating facility for release in late 2000.

During the year, the Mint was awarded the European patent for the bi-metallic coin locking mechanism developed for the Canadian \$2 coin. The mechanism is also used on bi-metallic coins produced for foreign customers.

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

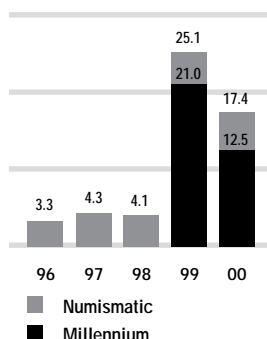


Canadian circulation revenue (\$ in millions)
Millennium coin revenue (\$ in millions)

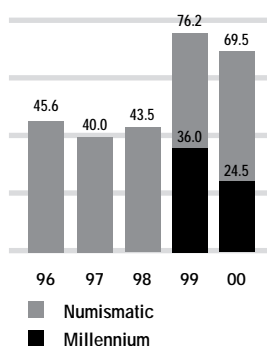


Management's discussion and analysis

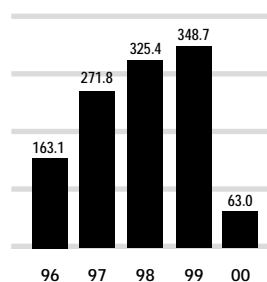
Canadian numismatic coins sold (millions of pieces)
Millennium coins sold (millions of pieces)



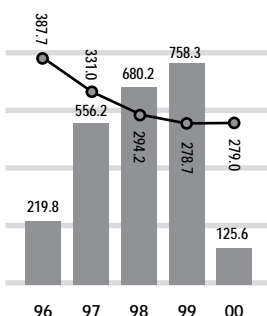
Canadian numismatic revenues (\$ in millions)
Millennium coin revenues (\$ in millions)



Bullion product revenue (\$ in millions)



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



Canadian numismatic coins: Revenue from Canadian numismatic coins decreased by 8.8% to \$69.5 million in 2000 (\$76.2 million - 1999), primarily because of a decline in the sales of Millennium numismatic coins which had been anticipated. Sales of the Canadian Millennium coins represented 35.3% of numismatic revenues in 2000 compared to 47.3% in 1999. The decline in sales of this product was offset by strong demand for coins minted to commemorate the Year of the Dragon in the Chinese lunar calendar. The Dragon coins, which were particularly popular, generated \$5.6 million in revenue, a 21.9% increase over Year of the Rabbit sales in 1999. The mintage of lunar coins is limited and both the Rabbit and Dragon coins sold out rapidly. Revenue from core numismatic products matched revenues in 1999.

The Mint continued to build its technological expertise in holograms. Three coins with a transportation theme – the Land, Sea and Rail \$20 Sterling Silver Hologram Cameo coins – were struck with a conventional image and a hologram cameo. The innovative and difficult technology required to produce these coins was officially recognized at the annual Mint Directors' Conference in Canberra, Australia with the award for the Most Technically Advanced Coin. This award is particularly significant because the coins are judged by the Mint's peers from competing mints. The Mint also produced a Year of the Dragon 2000 \$150 18-Karat Gold Coin.

In 2000, the 20th anniversary Gold Maple Leaf hologram coin was selected to receive an award for Excellence in Holographic Product 1999 by the Hologram Manufacturers Association and Holography News.

The Mint produced its first colourized coins in 2000. A colourized 25-cent Celebration coin was issued in July and a colourized 25-cent Pride coin was issued in September to mark the participation of Canadian athletes at the Sydney Olympics.

Bullion: Revenue from bullion products declined 81.9% to \$63.0 million in 2000 from \$348.7 in 1999. The investment role of gold, including Canada's Gold Maple Leaf (GML), as a store of value and a hedge against inflation has diminished in recent years. This became particularly pronounced in 2000 when uncertainties that had stimulated gold sales in 1999 proved to be unfounded. At the same time, the stock market and the U.S. dollar were more appealing investment options for much of the year. Finally, central banks around the world continued to sell gold from their reserves, confirming their change in attitude toward the metal.

Sales of silver declined to 403,652 ounces, causing revenues to decline 68.0% to \$3.8 million (1,229,442 ounces and \$11.9 million - 1999). During the year, the Mint suspended the Platinum Maple Leaf program indefinitely. The

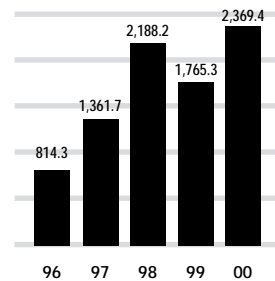
Management's discussion and analysis

cost of leasing platinum made the coins uncompetitive in the investment marketplace. At the same time, weak economic conditions in Asia and a weak Japanese yen curtailed demand for the metal in the Far East.

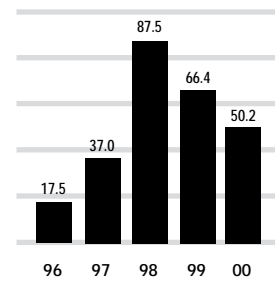
Foreign circulation: The Mint produced 2.3 billion pieces for 19 countries in 2000 (1.8 billion - 1999), generating \$50.2 million in revenue (\$66.4 million - 1999). Despite record production levels, the large volume of blanks sold resulted in lower revenue. The most significant contracts were with the United States as well as countries in Latin America, Africa and Asia. The new plating facility will improve the Mint's capacity to produce foreign circulation coins at a substantially reduced cost. By producing coins and blanks with a steel core and plated with nickel and/or copper, a country can realize significant savings in the production of its coinage. Visitors from 16 countries attended an open house at the Winnipeg plant in June; 12 of those countries are now pursuing changes to their coinage specifications to include the Mint's plated material.

Foreign numismatic: Unlike sales in 1999, which were dominated by a contract to design, produce, market and distribute coins to commemorate the December handover of Macau to China, sales of foreign numismatic coins and blanks in 2000 were spread among numerous small contracts. Total sales of foreign numismatic products generated \$4.7 million in revenue compared to \$6.9 million in 1999.

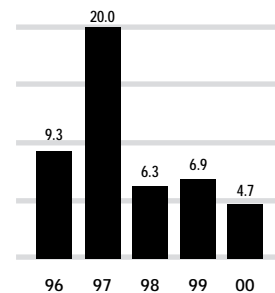
Foreign circulation coins sold (millions of pieces)



Foreign circulation revenue (\$ in millions)



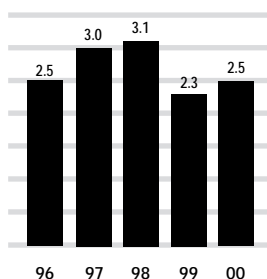
Foreign numismatic revenue (\$ in millions)
(excluding value of gold)



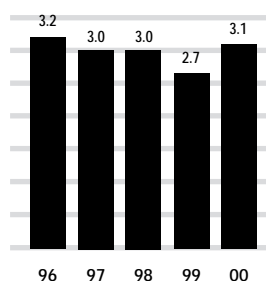
Management's discussion and analysis

Refining services

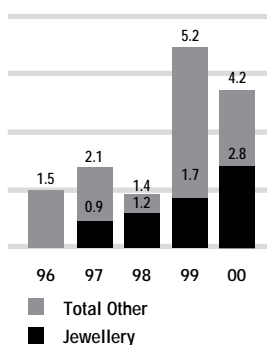
(gross weight received in millions of troy ounces)



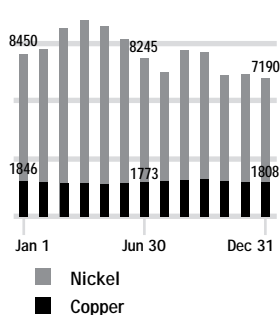
Refining services revenue (\$ in millions)



Jewellery/Other revenue (\$ in millions)



Prices of nickel and copper in 2000 Monthly averages (US\$ per metric ton)



Refining services: The Mint refines gold received from a variety of sources and has earned an international reputation for integrity, purity and security. Revenue from these activities increased in 2000 to \$3.1 million from \$2.7 million in 1999. The refining operation also supports the manufacturing of the Mint's bullion coins, jewellery and numismatic coins that contain precious metal.

Jewellery: Revenues from jewellery increased 64.7% to \$2.8 million in 2000 from \$1.7 million in 1999 as the Mint continued to aggressively build its line of PURE 9999 jewellery products. The creative talents of several of North America's leading designers were engaged for the development and launch of the Mint's first line of non-coin jewellery products. Distribution of the jewellery continued to expand in Canada while efforts to develop retail channels in the U.S. resulted in the establishment of 47 jewellery accounts supported by a U.S. distribution centre and 10 independent sales agents. Canadian design students were challenged in 2000 to submit design suggestions for the PURE 9999 collection. Winners will see their designs become part of the PURE collection in 2001. The Mint's jewellery collection was also featured during the broadcast of the 2000 Gemini Awards ceremony.

Other: The Mint produces a wide variety of tokens, medals and trade dollars. Revenue from these products decreased to \$1.4 million in 2000 from \$3.5 million in 1999.

Operating costs

Operating costs – including the cost of goods sold and the costs of marketing and sales, administration and depreciation – were \$292.7 million, a decrease of 47.8% over costs of \$561.2 million in 1999. Cost of goods sold, which represents 76.6% of total operating costs, decreased 54.6% to \$224.1 million (\$493.2 million - 1999). This decline reflects the 83.4% decline in the volume of gold bullion products produced. Gold prices fluctuated over the year with the average price for gold in 2000 matching the average price in 1999 at US\$279 per ounce. The average price of the two primary base metals purchased by the Mint – nickel and copper – declined in 2000. Nickel prices increased during the first few months of the year then steadily declined to US\$7,190 per metric ton by December (US\$8,450 - December, 1999). Copper prices fell to a low of US\$1,715 per metric ton in April, fluctuating throughout the rest of the year to end the year at US\$1,808 (US\$1,846 - December, 1999).

Management's discussion and analysis

Human resources management

Natural attrition and the implementation of an early retirement program in December caused employment at the Mint to decline to 698 persons by the end of 2000 (745 persons - December 31, 1999), including both permanent and temporary employees. Wages and benefits increased to \$43.4 million (\$39.3 million - 1999), partly due to the early retirement program and the higher costs associated with the Mint's contribution to the Public Service Superannuation Plan.

The Mint invested \$1.5 million in the coaching and training of its employees during 2000. The employees continue to lend their commitment, confidence and innovative spirits to the success of the Mint. The Mint's dedication to encouraging these values and attributes is backed by a commitment to spend 4% of payroll on skills development each year. In 2000, 56 days of Enterprise Resource Planning (ERP) training was provided to approximately 50 individuals, including project directors and key users in various business lines, channels and functional areas of the Mint. ERP training will continue throughout 2001. In 2000, approximately 100 people, from the executive offices to the plant floor, were given computer training in a wide variety of applications. Another 120 individuals were provided training in project management.

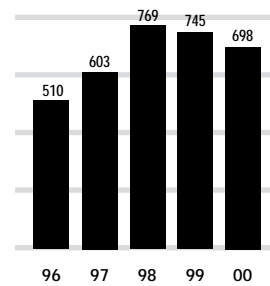
An employee survey was conducted during the year in a continuous effort to seek out employee feedback on progress at the Mint. Action plans for implementing employee suggestions were developed. A human resources framework was established to provide feedback on the effectiveness of the Mint's HR programs and activities in such areas as recruitment, training, and labour relations.

Continuous improvement initiatives

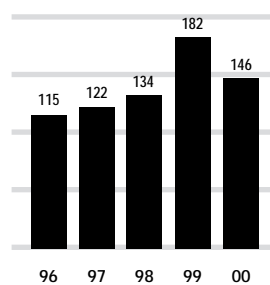
Through continuous improvement initiatives implemented over the past six years, the Mint has consistently improved productivity and efficiency in both the Winnipeg and Ottawa plants. For example, in Winnipeg, efforts begun in early 1999 gradually reduced material loss from 5% to less than 1% by the end of 1999. This was maintained throughout 2000 allowing the plant to increase volume and reduce throughput costs by approximately 10%. Downtime caused by equipment failure continued to decline with 85% of maintenance resources spent on preventative work and only 15% on managing breakdowns.

During 2000, the Mint's continuous improvement program merged with the techniques of lean manufacturing in its continuing efforts to build its capabilities and enhance manufacturing quality. Lean manufacturing is a process that focuses on the efficient use of resources through the careful organization of activities and the management of materials. The benefits

Number of employees
(at December 31)



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



Management's discussion and analysis

include reduced cycle time, less waste, lower inventories, increased flexibility and responsiveness, shorter lead times, increased employee involvement and improved customer satisfaction.

Under lean manufacturing, the Mint began "value-stream mapping," an activity that examines the flow of materials through a plant, allowing it to eliminate unnecessary activities and to manufacture on demand. Through this mapping, both Ottawa and Winnipeg were able to identify and eliminate constraints in the plant. In Winnipeg, for example, annealing capacity was identified as one of the most significant constraints to efficiency and steps were taken that doubled capacity. The improved efficiency made it possible for the Winnipeg plant to meet the unexpected demand from the United States for 4.8 million blanks a day.

Under the umbrella of "lean manufacturing," the Mint introduced "5S" to resolve problems or inefficiencies with equipment or processes in both plants. 5S – named for the words sort, set in order, shine, standardize and sustain – is a method of organizing a work place, creating better control through visibility. The benefits are improvements in manufacturing efficiency, safety, and quality in both products and processes. At the same time, the two independent computerized maintenance systems used by Winnipeg and Ottawa were integrated into ERP – a step that also connected the operating systems of the two plants for the first time. Both plants continued to use Overall Equipment Effectiveness (OEE) to measure the efficiency of each piece of equipment and identify areas of operation that could be improved.

In Ottawa, the introduction of laser technology in engraving reduced the cycle time required to produce a master die from the original design, reducing costs and improving customer responsiveness. A new continuous casting system for silver will increase capacity, improve the quality of silver alloys being produced and, as a result, reduce reject rates on blanks for all silver coins.

Construction of the plating facility in Winnipeg was completed in January, three months ahead of schedule and \$700,000 below budget. The plant, which has an annual capacity of 1.2 billion pieces, went into production in April and has produced coins for Canada, Nicaragua and El Salvador.

Following scheduled ISO audits, both the Winnipeg and Ottawa plants had their ISO certification re-confirmed during the year. It is anticipated the plating facility will be ISO certified in early 2001. Along with the enhancements to efficiency, quality and safety that are the core benefits of participation in the ISO program, the Mint experienced specific benefits. The significant reduction in the time required to inspect incoming materials as a result of the pre-qualification of suppliers has led to savings in both time and costs. The implementation of

Management's discussion and analysis

quality standards in coin striking has reduced the coin rejection rates. ISO has also given the Mint better tools – such as process mapping and control plans – for improved tracking and results analysis.

Enterprise Resource Planning (ERP)

On January 2, 2001, after 18 months of planning and implementation, most systems in the Mint were integrated into the ERP system. This system will integrate the processes at the Mint from order entry and purchasing to manufacturing, marketing and sales, shipping and invoicing to create a comprehensive, up-to-date, consistent repository of information. It will improve communications between departments and enhance both the quality and speed of decision-making.

As part of the ERP package, the Mint has implemented reporting tools for tapping the rich information in the database; one for traditional querying and a second for more complex analysis. The most dramatic impact of the new system is expected to be improvements in customer service and the ability to manage plant capacity more effectively. However, the opportunities for efficiencies are expected to ripple through the Mint from the boardroom to the shop floor.

Occupational Safety and Health (OSH)

A renewed focus on health and safety led to a reduction in the accident frequency rate in Ottawa to 3.3 accidents per 100 employees during the year (5.7 - 1999) and a significant reduction in severity rate to 13.9 (28.3 - 1999). Frequency and severity rates have become critical performance measures and accident reporting has been integrated into weekly operations meetings. The plant has implemented specific training in accident prevention and monthly workplace inspections.

The OSH training and awareness programs that yielded reduced rates in Ottawa in 2000 are reaching full implementation in Winnipeg. Performance in health and safety will be integrated into the performance target of all supervisors and managers across the Mint in 2001.

Environment

During the year, the Mint continued its commitment to the protection of the environment, prevention of pollution and the sustainable use of natural resources. Operations and procedures are continuously reviewed to assess environmental performance and compliance with applicable environmental regulations and guidelines. A comprehensive environmental assessment was conducted at both the Ottawa and Winnipeg facilities during the last quarter of 2000. The study included sampling and analysis of indoor air quality, source gas emissions and wastewater discharges. Results from the assessment indicate that operations at the Mint do not effect the environment nor the health and safety of employees.

Management's discussion and analysis

Marketing and sales

Marketing and sales costs in 2000 decreased to \$36.5 million (\$40.4 million - 1999). During the year, the marketing and sales department continued to implement its strategy of expanding the Mint's retail distribution channels. At the same time, it refined its marketing approach to target two distinct groups: coin collectors and buyers of gifts or souvenirs. During the year, an analysis of the buying habits of each group was undertaken. Distinct products have been developed and marketing campaigns will be tailored to meet the needs and motivations of the two segments. It is anticipated this approach will not only capture, but continue to kindle the renewed interest in coins and the momentum in sales sparked by the Millennium program.

During 2000, the Mint entered into a series of partnerships and sponsorships in non-traditional sectors to build awareness of the Mint. Sponsorships included the CBC telecast of the Canada Day celebrations on Parliament Hill, the CIBC Run for the Cure, the Viewers' Choice Award presented during the Gemini Awards, the Governor General's Performing Arts Award and the CBC/Radio-Canada Extreme Attitudes Against Drinking and Driving (EADD) campaign. Programs were developed in partnership with Nestle Canada Inc., Ganong Bros. Ltd., General Mills Canada, Inc. and Binney & Smith Canada (Crayola).

The Mint also continued to expand its mass-market channels. Building upon relationships established with Home Hardware and 7-Eleven in 1999, the Mint's distribution network expanded to include major food stores such as Loblaws and Safeway. Moreover, it broadened its distribution through tourist attractions such as the CN Tower and the Capilano Canyon Bridge.

December 2000 marked the end of the two-year Millennium coin program. The success of this program exceeded all expectations, generating 41.6% of the total revenue from numismatic products over the past two years; 40,000 new names in the Mint's directory of customers; increased traffic and sales throughout the Mint's distribution network; and increased unaided public awareness of the Mint to 65% from 59% in 1999.

During the year, five direct marketing campaigns supported by two general awareness television campaigns and cross-Canada print advertising generated revenues of \$25.5 million and increased traffic for all resellers. Over the past few years, there has also been a substantial growth in non-direct marketing retail sales. Retail sales generated 13% of total numismatic sales in 2000 compared to less than 5% two years ago.

Management's discussion and analysis

E-commerce

During the year, the Mint developed a comprehensive e-commerce strategy to be implemented in 2001. The Royal Canadian Mint website is evolving to provide customers with the best and most technologically innovative service available. Improvements will include the integration of systems and business processes involved in serving the Mint's web-based clientele, ensuring much faster order processing and increased customer satisfaction. Data captured from the new site will enable the Mint to gain a better understanding of customer buying patterns and interests.

Although this strategy will not be implemented until 2001, the Mint's e-commerce is expanding rapidly. The number of orders received during 2000 climbed to 9,183 from 2,785 in 1999. Total revenue from the site more than quadrupled to \$1.3 million from \$305,000 in 1999. The Internet continues to be an effective channel for reaching individuals who might not otherwise purchase products from the Mint. During 2000, 53% of the orders submitted through the site were from new customers with close to half of the orders from customers in the U.S.

Administrative costs

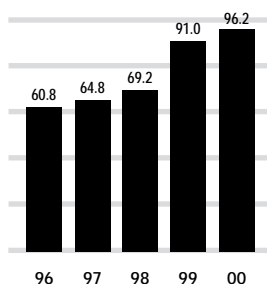
Administrative costs increased to \$25.7 million from \$22.8 million in 1999. The increase was driven by the cost of the early retirement program, the higher costs associated with the Mint's contribution to the Public Service Superannuation Plan and the costs associated with the implementation and management of ERP. Administrative costs as a percentage of revenue increased to 8.5% from 3.9% in 1999; the ratio in 1999 reflects the strong bullion revenue generated during the year. Excluding bullion, the increase in administrative costs as a percentage of revenue was more modest – rising to 10.7% in 2000 from 9.7% in 1999.

Operating results

Income from operations declined to \$9.9 million from \$23.1 million in 1999, due to the decline in sales of bullion products and Millennium numismatic coins. Gross profit margin increased to 25.9% from 15.6% in 1999. Changes in the Mint's operating income and gross profit reflect not only a change in revenue and the volume of products sold but also the shift in the mix of products sold.

Management's discussion and analysis

Shareholder's equity
(\$ in millions)



Interest income remained stable at \$1.2 million (\$1.3 million - 1999). Interest expense in 2000 was the same as in 1999 – \$2.4 million – incurred primarily by the debt related to the construction of the plating facility.

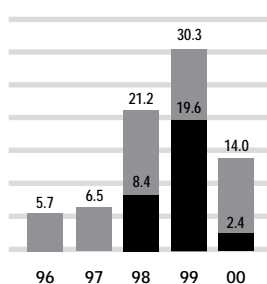
The Corporation's effective tax rate for 2000 was 33.0%. In previous years, the effective tax rate was zero, excluding large corporations tax, due to the utilization of previously unrecognized losses and the differences between the tax and accounting value of assets. The extraordinary net income in 1999 eliminated these tax benefits. (See Note 7 in the Notes to the Financial Statements.) Depreciation expense increased to \$6.4 million compared to \$4.9 million in 1999, the result of continued growth in capital investment and the commencement of operations at the plating facility.

Liquidity and capital resources

Cash and short-term investments declined to \$138,000 by the end of the year from \$16.1 million at the end of 1999. The decline in cash was precipitated by the decline in revenue, particularly from bullion. Cash was further reduced by interest and principal payments on the debt incurred to construct the plating facility and for the capital equipment replacement program.

Capital expenditures
(\$ in millions)

■ Expenditures
■ Plating expenditures

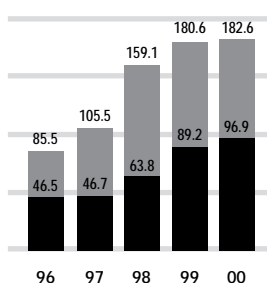


Despite the decline in revenue, the Mint was able to fund operations and capital expenditures without short-term borrowing. The Mint's debt-to-equity ratio declined to 0.40:1 from 0.46:1 a year ago.

Capital expenditures: The Mint continues to focus on expanding manufacturing capabilities and improving operating efficiencies. As a result, capital investments were \$14.0 million for the year. As in previous years, priority was given to capital investments that increase the Mint's flexibility, reliability and capability to meet customer demands. The major expenditures included:

- \$8.4 million for purchasing and refurbishing manufacturing equipment and maintenance of the buildings.
- \$2.4 million for the completion of the plating facility. This brought the total cost of the facility to \$30.3 million, \$700,000 below budget.
- \$1.6 million on information technology initiatives including the development of a more robust e-commerce platform and the implementation of the ERP system.

■ Total assets
■ Net capital assets
(\$ in millions)



Financing: In December 2000, the Mint began to reduce the \$31.0 million plating facility debt with a scheduled \$3.1 million repayment of principal and \$1.2 million interest payment. The Mint also made a scheduled \$1.5 million repayment of principal and interest on a 10-year debt due December 2007. (See Note 6 in the Notes to the Financial Statements.)

Management's discussion and analysis

Risks to performance

Precious metal risk: The Mint purchases three precious metals – gold, silver and platinum. These metals are used in the Maple Leaf and numismatic coins as well as jewellery. The Mint is not exposed to risk in a change in price in the metals used for the bullion coins because the purchase and sale of metals used in these coins is done on the same date, using the same price, and in the same currency. For numismatic and jewellery products, risk is mitigated through a precious metal risk management hedging program involving forward contracts and options. At the end of 2000, the Mint had one forward contract in place related to the purchase of 5,000 ounces of gold for the Mint's own coin program.

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

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

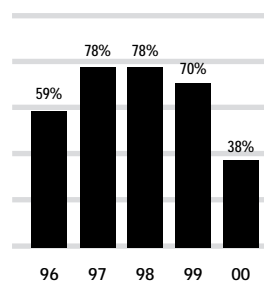
Outlook

The Mint heads into 2001 anticipating sustainable growth and profitability at pre-Millennium coin program levels. 2000 was a year of consolidation for the Mint, both in technological capabilities and in its approach to the marketplace.

The broader popular interest in coins and in coin collecting that had been generated by the first year of the Millennium coin program continued at a stronger pace than had been expected, bringing with it a keener understanding of the buying habits and interests of the Mint's customers. During 2000 the Mint identified two retail target markets – coin collectors and the souvenir or gift buyer – and developed both a range of products as well as a distribution and e-commerce strategy aimed at fulfilling the needs of each of these distinct markets more effectively.

The year 2000 also marked the introduction of plated coinage for Canadian circulation. The completion of the plating facility in Winnipeg allows the Mint to significantly reduce the manufacturing cost of coins. The anticipated savings to the Canadian government is approximately \$10 million a year on

Exports as a percentage of total revenue



Management's discussion and analysis

the production of Canadian circulation coins. The plating facility not only ensures that the Mint can fulfill its core mandate – the production of quality circulation coins at a reasonable cost for Canada – it expands its breadth of manufacturing and consulting capabilities in the international marketplace.

The foreign circulation coin market is extremely cyclical and competition is increasingly intense. The Mint has been able to sustain its global market position through its reputation for high quality products and services and technological innovation. To moderate the cyclical nature of the market, the Mint will go beyond these manufacturing strengths to focus on building longer-term relationships by offering integrated solutions to meet customers' needs, including plated product alternatives, technology transfer and consulting services.

The market environment for the Mint's bullion products continues to evolve with demand and prices increasingly driven by demand-supply fundamentals, much like any other commodity. Notwithstanding the occasional upswings caused by volatility in the stock markets or uncertainties over currencies, the bullion market is expected to remain flat.

The Mint will also continue to make advancements in production and management capabilities, enhancing improvements made in 1999 and 2000 with the implementation of lean manufacturing and the development of a "real-time" communications capability through the implementation of ERP.

Tougher competition and more demanding customer expectations in both the Canadian and export markets will continue to drive the Mint to increasingly aggressive consumer targeting, market segmentation, new relationships with both customers and distribution partners and improvements in service and manufacturing. The Mint will remain flexible, ready to seize opportunities, and able to react to changing market conditions as it strengthens its role as one of the leading mints in the world.