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| SECOND QUARTER FINANCIAL REPORT |
| fiscal 2019 |
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NARRATIVE DISCUSSION

**BASIS OF PRESENTATION**

The Royal Canadian Mint (the “Mint”) prepared this report as required by section 131.1 of the *Financial Administration Act[[1]](#footnote-1)* using the standard issued by the Treasury Board of Canada Secretariat. This narrative should be read in conjunction with the unaudited condensed consolidated financial statements.

The Mint prepared these unaudited condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2019 and June 30, 2018 in compliance with International Financial Reporting Standards (IFRS). Although the Mint’s year end of December 31 matches the calendar year end, the Mint’s quarter end dates do not necessarily coincide with calendar year quarters; instead, each of the Mint’s quarters contains 13 weeks. Financial results reported in this narrative are presented in Canadian dollars and rounded to the nearest million, unless otherwise noted. The information in this narrative is current to August 22, 2019, unless otherwise noted.

**FORWARD LOOKING STATEMENTS**

Readers are advised to refer to the cautionary language included at the end of this narrative when reading any forward-looking statements.

**OVERVIEW OF THE CORE MANDATE AND THE BUSINESS**

The Royal Canadian Mint is Canada’s national mint. Its core mandate to produce circulation coins for Canada is focused on providing high quality, durable and secure coins manufactured at its Winnipeg plant to meet the needs of Canadian trade and commerce. The Mint provides an end-to-end service for the Government of Canada with the Mint’s forecasting, world-class production, logistics, recycling and distribution operations, circulation, and monitoring services.

In addition to its core mandate, the Mint is also responsible for the Alloy Recovery Program (ARP) where older-composition Canadian coins are removed from circulation and replaced by multi-ply plated steel (MPPS) coins, which are more durable and secure. This program also involves the systematic replacement or removal of old alloy coins and international coins ensuring that there is consistency in the market and helping to streamline automated coin acceptance transactions. The Mint’s activities also include the provision of minting services to foreign countries, the production and marketing of bullion and related refinery products and services, numismatic coins and medals.

The Foreign Circulation business produces and supplies finished coins, coin blanks and tokens to customers around the world, including central banks, mints, monetary authorities and finance ministries. The Mint also produces high technology dies for international customers, which allows countries to strike their own coins. These contracts leverage the infrastructure and industry-leading expertise in the Mint’s Winnipeg manufacturing facility.

The Bullion Products & Services business provides its customers with market-leading precious metal investment coin and bar products, supported by integrated precious metal refining, storage and exchange traded receipts (ETR) capabilities. These products include the Maple Leaf family of gold, silver, palladium and platinum coins, as well as other precious metal products and services for investment and manufacturing purposes. As a market leader in the industry with bullion coins of the highest purity and unprecedented security, the Mint is well positioned to capture a leading share of any increase in demand while sustaining volumes during soft markets. The Canadian Gold and Silver Reserves ETR products listed on the Toronto Stock Exchange allow retail and institutional investors to hold title to precious metals covered under ETRs and stored at the Mint while reducing Mint lease costs.

The Numismatics business designs, manufactures and sells collectible coins and medals to a loyal customer base in Canada and around the world. The Mint’s global leadership in the art and science of minting is consistently recognized with prestigious international awards. This recognition is largely earned by innovative technology enhancements such as glow in the dark, selective plating and vibrant colour that allow the Mint to create unique and compelling products. The Mint sells numismatic products through its e-commerce platform and its Ottawa and Winnipeg boutiques, as well as dealers and partners both domestically and internationally.

**SIGNIFICANT CORPORATE EVENTS**

**Appointments to the Board of Directors**

On June 5, 2019, the Honourable Bill Morneau, Minister of Finance announced the appointments of Pina Melchionna and Barry Rivelis to the Mint’s Board of Directors. Ms. Melchionna’s appointment is effective as of June 2, 2019 and Mr. Rivelis’ appointment is effective as of July 1, 2019. These appointments are for a four-year term.

**Canada’s top 50 corporate citizens**

For the second year in a row, on June 4, 2019, Corporate Knights has named the Royal Canadian Mint one of the Best 50 Corporate Citizens in Canada.  The Mint achieved this ranking for its safety record, superior diversity at the Board and executive levels, as well as its leadership and excellence in energy, carbon and waste productivity.

**Bill C-58**

Bill C-58, *An* *Act to amend the Access to Information Act and the Privacy Act and to make consequential amendments to other Acts* received Royal Assent on June 21, 2019, bringing into force important improvements to the openness and transparency of government. The Mint is currently evaluating this new legislation and determining whether any changes are required to its current processes and disclosures.

**Organizational update**

The Mint appointed its first Chief Commercial Officer, Tom Froggatt. As part of the Mint’s Numismatics strategy review process, Mr. Froggatt will take over the merged positions of Vice President, Marketing and Vice President, Sales as of August 12, 2019.

**OPERATING HIGHLIGHTS AND ANALYSIS OF RESULTS**

To achieve its objectives, the Mint strives to continually improve profitability through prudent financial management and efficient operations. The Mint measures its performance as an integrated business and overhead costs are allocated to each program and business. The metrics below are meaningful to customers, business partners and employees and allow the Mint to monitor its capacity to improve performance and create value for its shareholder and for Canada.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | | 26 weeks ended | | | | | | |
|  | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change |
| Revenue | **$** | **278.4** | $ | 260.7 | $ | 17.7 | 7 | **$** | **629.1** | $ | 601.6 | $ | 27.5 | 5 |
| Profit before income tax and other items1 |  | **8.0** |  | 6.4 |  | 1.6 | 25 |  | **19.1** |  | 13.2 |  | 5.9 | 45 |
| Profit before income tax and other items margin |  | **3%** |  | 2% |  |  |  |  | **3%** |  | 2% |  |  |  |
| Profit for the period |  | **4.8** |  | 5.9 |  | (1.1) | (19) |  | **12.5** |  | 10.7 |  | 1.8 | 17 |
| 1A reconciliation from profit for the period to profit before income tax and other items is included on page 11. | | | | | | | | | | | | | | |

Profit before income taxes and other items for the 13 and 26 weeks ended June 29, 2019 increased $1.6 million and $5.9 million, respectively, compared to the same periods in 2018 while profit before income tax and other items margin increased 1%. The increases in both periods were primarily driven by the improved performance of the Numismatics business and strong performance of the Bullion products and ancillary services business.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | As at | | | | | | |
|  | June 29, 2019 | | December 31, 2018 | | $ Change | | % Change |
| Cash and cash equivalents | $ | **91.4** | $ | 66.4 | $ | 25.0 | 38 |
| Inventories |  | **53.6** |  | 62.2 |  | (8.6) | (14) |
| Capital assets |  | **175.2** |  | 172.8 |  | 2.4 | 1 |
| Total assets |  | **399.1** |  | 397.8 |  | 1.3 | - |
| Working capital |  | **125.1** |  | 107.5 |  | 17.6 | 16 |

Working capital remained strong having increased 16% from December 31, 2018. Cash increased 38% from December 31, 2018 due to higher revenue and the favorable timing of cash collected from customers and payments made to suppliers. Offsetting these increases, inventories decreased 14% as compared to December 31 2018 due to sales and more efficient management of precious metal requirements.

**Revenue by program and business**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | | 26 weeks ended | | | | | | |
|  | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change |
| Canadian Circulation program | **$** | **25.5** | $ | 22.8 | $ | 2.7 | 12 | **$** | **46.9** | $ | 45.4 | $ | 1.5 | 3 |
| Foreign Circulation business |  | **14.5** |  | 15.2 |  | (0.7) | (5) |  | **23.2** |  | 33.8 |  | (10.6) | (31) |
| Bullion Products and Services business |  | **206.4** |  | 193.9 |  | 12.5 | 6 |  | **499.7** |  | 465.6 |  | 34.1 | 7 |
| Numismatics business |  | **32.0** |  | 28.8 |  | 3.2 | 11 |  | **59.3** |  | 56.8 |  | 2.5 | 4 |

**Canadian Circulation**

During the 13 and 26 weeks ended June 29, 2019, revenues from the Canadian Circulation program increased by $2.7 million and $1.5 million, respectively, over the same periods in 2018 mainly due to an increase in the volume of coins mainly due to commemorative circulation coins issued and sold to the Department of Finance (DOF) partially offset by lower fixed costs billed under the memorandum of understanding (MOU) with the DOF which was signed in June 2018.

**Coin supply**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
| *(in millions of coins)* | **June 29, 2019** | June 30, 2018 | Change | % Change | **June 29, 2019** | June 30, 2018 | Change | % Change |
| Financial institutions deposits | **625** | 683 | (58) | (8) | **1,294** | 1,396 | (102) | (7) |
| Recycled coins | **41** | 37 | 4 | 11 | **79** | 77 | 2 | 3 |
| Coins sold to financial institutions and others | **102** | 128 | (26) | (20) | **118** | 147 | (29) | (20) |
| Total coin supply | **768** | 848 | (80) | (9) | **1,491** | 1,620 | (129) | (8) |

Demand is met through the three main sources of supply outlined in the above table and is subject to variability across regions of the country and seasonality depending on the time of the year. The net supply for Canadian circulation coins decreased 9% and 8%, respectively, for the 13 and 26 weeks ended June 29, 2019, when compared to the same periods in 2018. Sales of new coins to financial institutions were slightly lower compared to the same period last year as more financial institution inventory was available to meet the demand. Coin inventory dropped to normal levels by the end of the second quarter in 2019. Demand seasonality for coinage continues to follow historical patterns with the highest periods being in the summer and winter holidays.

**Department of Finance (DOF) Inventory**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | As at | | | | | | |
| *(in millions of dollars)* | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change |
| Opening inventory | **$** | **98** | $ | 101 | $ | **(3)** | (3) |
| Production |  | **25** |  | 61 |  | **(36)** | (59) |
| Coins sold to financial institutions and others |  | **(31)** |  | (71) |  | **40** | (56) |
| Ending inventory | **$** | **92** | $ | 91 | $ | **1** | 1 |

The Mint actively manages inventory levels in response to changes in demand, financial institution deposits and recycling volumes to ensure coinage demand is met throughout the year. The face value of the DOF-owned inventory at June 29, 2019 was $92 million, which was within the inventory limit outlined in the Mint’s MOU with the DOF, with zero coin shortages during the first two quarters of 2019. To replenish inventories held on behalf of the DOF, the Mint produced 221 million net new coins in the first 26 weeks of 2019 compared to 202 million for the same period in 2018.

The efficient management of the coinage system is achieved hand-in-hand with the celebration of Canada’s history, culture and values.

On May 27, 2019, the Mint launched a two-dollar circulation coin commemorating the 75th anniversary of D-Day and honouring the brave Canadians who, landing in Normandy, France, helped establish the Allied foothold that would lead to the liberation of Western Europe.

On June 3, 2019, Her Excellency the Governor General in Council, on the recommendation of the Minister of Finance, authorized the issue of three new commemorative circulation coins in 2020 to commemorate: The 75th anniversary of Canada becoming a founding member of the United Nations; the 100th anniversary of the birth of acclaimed Haida artist Bill Reid; and the 75th anniversary of the end of the Second World War.

**Foreign Circulation**

Revenue for the Foreign Circulation business decreased 5% and 31% to $14.5 million and $23.2 Million, respectively, during the 13 and 26 weeks ended June 29, 2019 compared to $15.2 million and $33.8 million in the same periods in 2018 as production and/or shipments returned to more normal levels compared to the exceptional levels in 2018.

The decrease in Foreign Circulation revenue for the 13 weeks ended June 29, 2019 reflected changes in the mix of contracts which consisted of shipments of 286 million (2018 – 240 million) coins and blanks to 5 (2018 – 6) countries compared to 2018. The decrease for the 26 weeks ended June 29, 2019 reflected the shipment of 480 million (2018 – 761 million) coins and blanks to 9 (2018 – 9) countries. During the first 26 weeks of 2019, the Mint secured 6 new production contracts for an aggregate of 670 million coins.

**Bullion Products and Services**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | | 26 weeks ended | | | | | | |
|  | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change |
| Gross revenue | **$** | **278.1** | $ | 284.0 | $ | (5.9) | (2) | **$** | **676.4** | $ | 618.1 | $ | 58.3 | 9 |
| Less: customer inventory deals |  | **(71.7)** |  | (90.1) |  | 18.4 | (20) |  | **(176.7)** |  | (152.5) |  | (24.2) | 16 |
| Net revenue | **$** | **206.4** | $ | 193.9 | $ | 12.5 | 6 | **$** | **499.7** | $ | 465.6 | $ | 34.1 | 7 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
| *(thousands of ounces*) | **June 29, 2019** | June 30, 2018 | Change | % Change | **June 29, 2019** | June 30, 2018 | Change | % Change | |
| Gold | **84.6** | 99.0 | (14.4) | (15) | **208.4** | 207.5 | 0.9 | - | |
| Silver | **4,308.1** | 3,286.0 | 1,022.1 | 31 | **9,825.3** | 8,087.8 | 1,737.5 | 21 | |
| Gross ounces | **4,392.7** | 3,385.0 | 1,007.7 | 30 | **10,033.7** | 8,295.3 | 1,738.4 | 21 | |
| Less: ounces from customer inventory deals | **(202.1)** | (467.7) | 265.6 | (57) | **(489.7)** | (863.8) | 374.1 | (43) | |
| Net ounces | **4,190.6** | 2,917.3 | 1,273.3 | 44 | **9,544.0** | 7,431.5 | 2,112.5 | 28 | |

Bullion Products and Services net revenues for the 13 and 26 weeks ended June 29, 2019 increased 6% and 7%, respectively, as compared to the same periods in 2018. The increases in revenue were mainly attributable to improved market demand for silver bullion products. Sales for silver products increased 31%, quarter over quarter, and 21%, year over year, mainly due to higher demand in North America and Europe partially offset by lower demand in Asia. During the same periods, revenue from the Mint’s Refinery and Storage Services also increased 30% and 55%, respectively, due to one-time storage customer redemptions and an increase in refinery vendors purchasing precious metals from the Mint.

**Numismatics**

Numismatics revenue increased 11% and 4%, respectively, to $32.0 million and $59.3 million during the 13 and 26 weeks ended June 29, 2019 as compared to the same periods of 2018. The increases in revenue in both periods were largely attributable to a one-time unique silver coin set produced in collaboration with the US Mint, as well as custom coins for an international customer during the period. The year over year increase was lower mainly due to a smaller, more customer focused, product offering in 2019.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | | 26 weeks ended | | | | | | |
|  | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change | **June 29, 2019** | | June 30, 2018 | | $ Change | | % Change |
| Gold | **$** | **6.4** | $ | 6.2 | $ | 0.2 | 3 | **$** | **12.9** | $ | 12.3 | $ | 0.6 | 5 |
| Silver |  | **23.6** |  | 19.9 |  | 3.7 | 19 |  | **42.2** |  | 39.7 |  | 2.5 | 6 |
| Non Gold or Silver |  | **2.0** |  | 2.7 |  | (0.7) | (26) |  | **4.2** |  | 4.8 |  | (0.6) | (13) |
| Total revenue | **$** | **32.0** | $ | 28.8 | $ | 3.2 | 11 | **$** | **59.3** | $ | 56.8 | $ | 2.5 | 4 |

**Expenses, other income and income tax**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | | 26 weeks ended | | | | | | |
| **Expenses (income)** | **June 29, 2019** | | June 30, 20181 | | $ Change | | % Change | **June 29, 2019** | | June 30, 20181 | | $ Change | | % Change |
| Cost of sales | **$** | **246.3** | $ | 231.8 | $ | (14.5) | (6) | **$** | **565.0** | $ | 545.1 | $ | (19.9) | (4) |
| Operating expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Marketing and sales |  | **8.1** |  | 8.9 |  | 0.8 | 9 |  | **15.6** |  | 17.3 |  | 1.7 | 10 |
| Administration |  | **16.1** |  | 14.1 |  | (2.0) | (14) |  | **30.9** |  | 28.0 |  | (2.9) | (10) |
| Net foreign exchange losses (gains) |  | **0.8** |  | (0.6) |  | (1.4) |  |  | **1.5** |  | (2.7) |  | (4.2) |  |
| Finance (income) costs, net |  | **(0.4)** |  | 0.2 |  | 0.6 |  |  | **(0.7)** |  | 0.1 |  | 0.8 |  |
| Income tax expense |  | **2.9** |  | 0.6 |  | (2.3) |  |  | **4.6** |  | 3.3 |  | (1.3) |  |

1Prior year figures have been revised to conform to the current year presentation

Cost of sales for the 13 and 26 weeks ended June 29, 2019 increased to $246.3 million and $565.0 million, respectively, compared to $231.8 million and $545.1 million during the same periods in fiscal year 2018.

The overall increases in both periods were mainly due to higher material and labour costs from Bullion products and services, which increased 5% and 6%, respectively, due to higher sales volumes for gross gold and silver bullion products in both periods. The increase is further attributed to higher material and labour costs for Numismatic products, which increased 8% and 5%, respectively, mainly due to newly launched products, including custom products. The increases year over year were partially offset by a decrease in Foreign Circulation costs due to the changes in the production schedule and lower volumes during the period.

Overall, operating expenses for the 13 and 26 weeks ended June 29, 2019 increased 5% and 3% compared to the same periods in 2018 at $24.2 million and $46.5 million, respectively. Administration expenses increased 14% and 10%, respectively, due to higher employee costs as a result of budgeted annual compensation increases combined with increased overtime to support on-going operations and strategic initiatives, as well as one-time property tax rebates in 2018 that did not recur in 2019 and higher consulting expenses related to the progression of the Numismatics technology platforms review and other strategic initiatives. Selling and marketing expenses decreased 9% and 10%, respectively, mainly due to lower employee costs due to reduced headcount and lower distribution costs for marketing campaigns year over year.

Net foreign exchange loss increased $1.4 million and $4.2 million, respectively, for the 13 and 26 weeks ended June 29, 2019 when compared to the same periods in 2018. The net foreign exchange loss of $4.2 million in the first 26 weeks of 2019 was mainly due to a stronger Canadian dollar in relation to the US dollar and the resulting negative impact on the translation of the Mint’s US dollar balances.

Income tax expense for the 13 and 26 weeks ended June 29, 2019 increased $2.3 million and $1.3 million, respectively, when compared to the same periods in 2018, mainly due to an increase in taxable income as a result of temporary differences between income for accounting and tax purposes, as well as one-time adjustments recorded in the second quarter of each year related to the filing of the annual tax returns.

**LIQUIDITY AND CAPITAL RESOURCES**

**Cash flows**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | 26 weeks ended | | | | | | |
|  | **June 29, 2019** | | June 30, 20181 | | $ Change | | | **June 29, 2019** | | June 30, 20181 | | $ Change | |
| Cash and cash equivalents, at the end of the period | **$** | **91.4** | $ | 37.1 | $ | 54.3 | | **$** | **91.4** | $ | 37.1 | $ | 54.3 |
| Cash flow from (used in) operating activities |  | **11.9** |  | (12.6) |  | 24.5 | |  | **31.5** |  | (14.2) |  | 45.7 |
| Cash flow used in investing activities |  | **(2.5)** |  | (2.2) |  | (0.3) | |  | **(4.4)** |  | (5.7) |  | 1.3 |
| Cash flow used in financing activities |  | **(0.9)** |  | - |  | (0.9) | |  | **(1.5)** |  | - |  | (1.5) |

1Prior year figures have been revised to conform to the current year presentation as described in Note 22 of the unaudited condensed consolidated financial statements for the 13 weeks ended June 29, 2019.

Cash from operating activities for the 13 and 26 weeks ended June 29, 2019 increased $24.5 million and $45.7 million, respectively, compared to the same periods in 2018 primarily due to higher revenue, as well as the timing of cash collected from customers, payments to vendors and more efficient utilization of inventory during the period.

Cash used in investing activities increased $0.3 million for the 13 ended June 29, 2019 mainly due to higher investment in information technology projects in the period compared to the same period in 2018. Cash used in investing activities decreased $1.3 million for the 26 weeks ended June 29, 2019 mainly due to lower building and leasehold improvements compared to the same period in 2018.

Cash used in financing activities increased $0.9 million and $1.5 million, respectively, for the 13 and 26 weeks ended June 29, 2019 due to the principal payments for leases recognized on the consolidated statement of financial position on January 1, 2019 as a result of the implementation of IFRS 16 – *Leases*.

**Borrowing facilities**

See note 18 in the December 31, 2018 audited consolidated financial statements for details on the Mint’s borrowing facilities. The Mint entered and closed the period with total outstanding long-term loans of $11.9 million. The Mint entered the period with a total lease liability of $12.0 million and closed the period with a total lease liability of $10.7 million. The Mint’s total outstanding debt is within the Mint’s approved borrowing limit as prescribed by the *Royal Canadian Mint Act*. The Mint entered and closed the period with a long-term debt-to-equity ratio of 1:7.

**Reconciliation from profit for the period to profit before income tax and other items**

A reconciliation from profit for the period to profit before income tax and other items is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | | 26 weeks ended | | | | | |
|  | **June 29, 2019** | | June 30, 2018 | | $ Change | | **June 29, 2019** | | June 30, 2018 | | $ Change | |
| Profit for the period | **$** | **4.8** | $ | 5.9 | $ | (1.1) | **$** | **12.5** | $ | 10.7 | $ | 1.8 |
| Add (deduct): |  |  |  |  |  |  |  |  |  |  |  |  |
| Income tax expense |  | **2.9** |  | 0.6 |  | 2.3 |  | **4.6** |  | 3.3 |  | 1.3 |
| Other income |  | **(0.2)** |  | (0.2) |  | - |  | **(0.2)** |  | (0.2) |  | - |
| Net foreign exchange loss (gain) |  | **0.8** |  | (0.6) |  | 1.4 |  | **1.5** |  | (2.7) |  | 4.2 |
| FV Revaluation1 |  | **(0.3)** |  | 0.7 |  | (1.0) |  | **0.7** |  | 2.1 |  | (1.4) |
| Profit before income tax and other items | **$** | **8.0** | $ | 6.4 | $ | 1.6 | **$** | **19.1** | $ | 13.2 | $ | 5.9 |

1 Face Value revaluation is the non-cash impact of the change in the valuation of the precious metal component of the liability for Face Value redemptions.

**Risks to performance**

Management considers risks and opportunities at all levels of decision-making. The Mint’s performance is influenced by many factors, including: economic conditions, financial and commodity market volatility, and competitive pressures. Also, as a Crown corporation governed under a legislative framework, the Mint’s performance could be impacted by changes to shareholder objectives or to the directions given by governing bodies. Under the guidance of the Mint’s Board of Directors, the Mint’s enterprise risk management process is undertaken by the Leadership Team. It focuses on the identification and management of the key risks, which could impact the achievement of the Mint’s strategic objectives. As part of its oversight process, the Board reviews the Mint’s corporate risk profile on a quarterly basis and has input into the broader risk management approach.

The Mint’s enterprise risk management framework and practice is consistent with guidance issued by the Treasury Board and is subject to periodic review by the Mint’s internal auditor. Guidance in relation to risk awareness and risk management is provided to staff where necessary. Appropriate risk management requirements are embedded in staff responsibilities.

A register of key corporate risks is maintained, together with a series of operational risk registers covering each of the Mint’s businesses/support areas. These registers are updated regularly and evolve as new risks are identified and existing ones are mitigated.

The key corporate level risks that could materially impact the Mint’s ability to achieve its strategy are identified in the Mint’s 2018 Annual Report. There have been no material changes to the substance of key corporate level risks since the filing of the 2018 Annual Report.

**CRITICAL ACCOUNTING ESTIMATES, ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING POLICY DEVELOPMENTS**

See note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for a discussion of critical accounting estimates, as well as notes 3 and 5 in the accompanying unaudited condensed consolidated financial statements for the 13 and 26 weeks ended June 29, 2019 for a discussion of changes to accounting policies and adoption of new accounting standards.

**OUTLOOK**

The financial goal for 2019, as approved in the Mint’s 2019-2023 Corporate Plan, is $25.9 million. The Mint currently expects to meet or exceed its financial goal for 2019.

Overall demand for Canadian circulation coin continues to experience modest declines, in line with the latest Canadian economic forecast which calls for only modest economic growth this year. While the trend towards e-payments continues, there remains a number of systemic reasons for coin demand to not decrease in a more accelerated way. Principally, i) gaps in a seamless e-payment experience; ii) the security, anonymity and convenience of cash – particularly for low value transactions; and iii) demographics of people with access to different methods of electronic payment will continue to make coins relevant into the foreseeable future with modest declines anticipated over the next twelve months. Short-term demand for circulation coins is increasing as demand peaks during the busy summer months with festivals and higher tourism.

The Mint has solid contracted backlog for its Foreign Circulation business in 2019. Over the next 12 months, Central Banks are expected to issue tenders for over 4 billion nickel plated steel coins and coin blanks. The Mint anticipates continued profitable utilization of its Winnipeg assets through mid-2020.

The Mint continues to monitor bullion market conditions closely and is prepared to capitalize should demand conditions improve. The Mint also continues to focus on customer/market strategies and product differentiation in support of its strong market share, while carefully managing operating costs to mitigate the impact of uncertainty in the bullion coin market. The Mint’s Storage and Refinery businesses remain solid.

In 2019, the Mint is focused on the implementation of its updated numismatics strategy. Investments in improved marketing and customer service capabilities and tools are being made in order for the Numismatics business to profitably grow and service the Mint’s loyal and passionate customer base. The Mint’s approach has shifted from an in-ward product focused perspective to an out-ward customer focused approach. The Mint is focused on returning the Numismatics business to profitability. Its growth activities in Canada and the US will continue, while maintaining ancillary markets such as Europe and Asia. The Mint will also capitalize on its strong network of bullion dealers and distributors to cross-promote incremental numismatic opportunities and generate healthy, quality earnings.

**FORWARD LOOKING STATEMENTS**

The unaudited condensed consolidated financial statements and the narrative, contain forward-looking statements that reflect management’s expectations regarding the Mint’s objectives, plans, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as “plans”, “anticipates”, “expects”, “believes”, “estimates”, “intends”, and other similar expressions. These forward-looking statements are not facts, but only estimates regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Mint expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth above in the Risks to Performance, as well as in Note 9 – Financial Instruments and Financial Risk Management to the Mint’s unaudited condensed consolidated financial statements.

To the extent the Mint provides future-oriented financial information or a financial outlook, such as future growth and financial performance, the Mint is providing this information for the purpose of describing its expectations. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks.

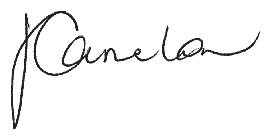
Readers are urged to consider these factors carefully when evaluating these forward-looking statements. In light of these assumptions and risks, the events predicted in these forward-looking statements may not occur. The Mint cannot assure that projected results or events will be achieved. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

The forward-looking statements included in the unaudited condensed consolidated financial statements and narrative are made only as of August 22, 2019, and the Mint does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

**Statement of Management Responsibility by Senior Officials**

Management is responsible for the preparation and fair presentation of these unaudited condensed consolidated 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 are necessary to enable the preparation of condensed consolidated 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 unaudited condensed consolidated financial statements.

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

Marie Lemay Jennifer Camelon, CPA, CA

President and Chief Executive Officer Senior Vice-President, Finance and Administration and Chief Financial Officer

Ottawa, Canada

August 22, 2019

**ROYAL CANADIAN MINT**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**Unaudited (CAD$ thousands)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | |  | As at | | | | | | | |
|  |  | Notes | | | **June 29, 2019** | | | | | | December 31, 2018 | | | |
| **Assets** | | |  | | |  |  | | | |  | |  |
| **Current assets** | | |  | | |  |  | | |  | | |  |
| Cash and cash equivalents | | |  | **$** | | | | **91,425** | | | | $ | 66,364 |
| Trade receivables, net and other receivables | | | 6 |  | | | | **20,699** | | | |  | 38,764 |
| Income tax receivable | | |  |  | | | | **788** | | | |  | - |
| Prepaid expenses | | |  |  | | | | **5,730** | | | |  | 3,395 |
| Inventories | | | 7 |  | | | | **53,565** | | | |  | 62,239 |
| Contract assets | | | 8 |  | | | | **13,220** | | | |  | 17,304 |
| Derivative financial assets | | | 9 |  | | | | **190** | | | |  | 50 |
| Total current assets | | |  |  | | | | **185,617** | | | |  | 188,116 |
|  | | |  |  | | | |  | | | |  |  |
| **Non-current assets** | | |  |  | | | |  | | | |  |  |
| Trade receivables, net and other receivables | | | 6 |  | | | | **646** | | | |  | - |
| Prepaid expenses | | |  |  | | | | **1,248** | | | |  | 612 |
| Derivative financial assets | | | 9 |  | | | | **-** | | | |  | 92 |
| Deferred income tax assets | | |  |  | | | | **36,350** | | | |  | 36,196 |
| Property, plant and equipment | | | 10 |  | | | | **158,923** | | | |  | 164,170 |
| Investment property | | |  |  | | | | **236** | | | |  | 236 |
| Intangible assets | | | 10 |  | | | | **7,170** | | | |  | 8,390 |
| Right-of-use assets | | | 11 |  | | | | **8,917** | | | |  | - |
| Total non-current assets | | |  |  | | | | **213,490** | | | |  | 209,696 |
| **Total assets** | | |  | **$** | | | | **399,107** | | | | $ | 397,812 |
|  | | |  |  | | | | |  | | |  |  |
| **Liabilities** | | |  |  | | | | |  | | |  |  |
| **Current liabilities** | | |  |  | | | | |  | | |  |  |
| Trade payables, other payables and accrued liabilities | | | 12 | **$** | | | | **34,351** | | | | $ | 48,999 |
| Provisions | | | 13 |  | | | | **5,100** | | | |  | 5,784 |
| Income taxes payable | | |  |  | | | | **-** | | | |  | 2,388 |
| Face Value redemptions | | | 14 |  | | | | **1,241** | | | |  | 1,292 |
| Contract liabilities | | | 8 |  | | | | **11,687** | | | |  | 14,590 |
| Loan payable | | |  |  | | | | **3,000** | | | |  | 3,000 |
| Lease liabilities | | | 15 |  | | | | **2,415** | | | |  | - |
| Employee benefits | | |  |  | | | | **2,556** | | | |  | 2,540 |
| Derivative financial liabilities | | | 9 |  | | | | **88** | | | |  | 2,064 |
| Total current liabilities | | |  |  | | | | **60,438** | | | |  | 80,657 |
|  | | |  |  | | | |  | | | |  |  |
| **Non-current liabilities** | | |  |  | | | |  | | | |  |  |
| Trade payables, other payables and accrued liabilities | | | 12 |  | | | | **244** | | | |  | 274 |
| Provisions | | | 13 |  | | | | **1,450** | | | |  | 2,136 |
| Face Value redemptions | | | 14 |  | | | | **140,137** | | | |  | 138,527 |
| Loan payable | | |  |  | | | | **8,991** | | | |  | 8,989 |
| Lease liabilities | | | 15 |  | | | | **8,244** | | | |  | - |
| Employee benefits | | |  |  | | | | **10,756** | | | |  | 10,756 |
| Derivative financial liabilities | | | 9 |  | | | | **7 XX** | | | |  | 23 |
| Total non-current liabilities | | |  |  | | | | **169,829** | | | |  | 160,705 |
| **Total liabilities** | | |  | | |  | | **230,267** | | | |  | 241,362 |
|  | | |  | | |  | |  | | | |  |  |
| **Shareholder’s equity** | | |  | | |  | |  | | | |  |  |
| Share capital (authorized and issued 4,000 non-transferable  shares) | | |  | | |  | | **40,000** | | | |  | 40,000 |
| Retained earnings | | |  | | |  | | **128,847** | | | |  | 116,358 |
| Accumulated other comprehensive (loss) income | | |  | | |  | | **(7)** | | | |  | 92 |
| **Total shareholder’s equity** | | |  | | |  | | **168,840** | | | |  | 156,450 |
| **Total liabilities and shareholder’s equity** | | |  | | | **$** | | **399,107** | | | | $ | 397,812 |

Commitments, contingencies and guarantees (Note 24)

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

**ROYAL CANADIAN MINT**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**Unaudited (CAD$ thousands)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | | | 26 weeks ended | | | |
|  | Notes | | **June 29, 2019** | | June 30, 2018  (Note 22) | | **June 29, 2019** | | June 30, 2018  (Note 22) | |
| Revenue | 17 | | **$** | **278,398** | $ | 260,734 | **$** | **629,105** | $ | 601,613 |
| Cost of sales | 18,19 | |  | **246,325** |  | 231,829 |  | **564,977** |  | 545,133 |
| **Gross profit** |  | |  | **32,073** |  | 28,905 |  | **64,128** |  | 56,480 |
| Marketing and sales expenses | 18,19 | |  | **8,100** |  | 8,897 |  | **15,631** |  | 17,339 |
| Administration expenses | 18,19, 20 | |  | **16,068** |  | 14,119 |  | **30,893** |  | 28,034 |
| **Operating expenses** |  | |  | **24,168** |  | 23,016 |  | **46,524** |  | 45,373 |
| Net foreign exchange (loss) gain |  | |  | **(824)** |  | 619 |  | **(1,465)** |  | 2,723 |
| **Operating profit** |  | |  | **7,081** |  | 6,508 |  | **16,139** |  | 13,830 |
| Finance income (costs), net |  | |  | **448** |  | (204) |  | **690** |  | (95) |
| Other income |  | |  | **220** |  | 227 |  | **222** |  | 228 |
| **Profit before income tax** |  | |  | **7,749** |  | 6,531 |  | **17,051** |  | 13,963 |
| Income tax expense | 21 | |  | **(2,945)** |  | (648) |  | **(4,562)** |  | (3,277) |
| **Profit for the period** |  | |  | **4,804** |  | 5,883 |  | **12,489** |  | 10,686 |
| Net unrealized (loss) gains on cash flow hedges | | | | **(25)** |  | 7 |  | **(99)** |  | 38 |
| **Other comprehensive (loss) income, net of tax** | | | | **(25)** |  | 7 |  | **(99)** |  | 38 |
| **Total comprehensive income** | | **$** | | **4,779** | $ | 5,890 | **$** | **12,390** | $ | 10,724 |

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

**ROYAL CANADIAN MINT**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**Unaudited (CAD$ thousands)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **13 weeks ended June 29, 2019** | | | | | | | |
|  | **Notes** | **Share Capital** | **Retained earnings** | | **Accumulated other comprehensive income(loss)**  **(Net gains on cash flow hedges)** |  | **Total** |
| Balance as at March 30, 2019 |  | $ 40,000 | $ | 124,043 | $ 18 | $ | 164,061 |
| Profit for the period |  | **-** |  | **4,804** | **-** |  | **4,804** |
| Other comprehensive loss, net1 |  | **-** |  | **-** | **(25)** |  | **(25)** |
| Balance as at June 29, 2019 |  | **$ 40,000** | **$** | **128,847** | **$ (7)** | **$** | **168,840** |
| 1Amounts are net of income tax |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13 weeks ended June 30, 2018 | | | | | | | | | | | |
|  | Notes | | Share Capital | |  | Retained earnings | Accumulated other comprehensive income  (Net gains on cash flow hedges) | |  | Total | |
| Balance as at March 31, 2018 |  | | $ 40,000 | | $ | 94,954 | $ 130 | | $ | 135,084 | |
| Profit for the period |  | | - | |  | 5,883 |  | - |  | 5,883 | |
| Other comprehensive income, net1 |  | | - | |  | - |  | 7 |  | 7 | |
| Balance as at June 30, 2018 |  | | $ 40,000 | | $ | 100,837 | $ 137 | | $ | 140,974 | |
| 1Amounts are net of income tax | |  | |  |  |  |  | |  | |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **26 weeks ended June 29, 2019** | | | | | | | |
|  | **Notes** | **Share Capital** | **Retained earnings** | | **Accumulated other comprehensive income(loss)**  **(Net gains on cash flow hedges)** |  | **Total** |
| Balance as at December 31, 2018 |  | $ 40,000 | $ | 116,358 | $ 92 | $ | 156,450 |
| Profit for the period |  | **-** |  | **12,489** | **-** |  | **12,489** |
| Other comprehensive loss, net1 |  | **-** |  | **-** | **(99)** |  | **(99)** |
| Balance as at June 29, 2019 |  | **$ 40,000** | **$** | **128,847** | **$ (7)** | **$** | **168,840** |
| 1Amounts are net of income tax |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26 weeks ended June 30, 2018 | | | | | | | | | | |
|  | Notes | Share Capital | Retained earnings | | Accumulated other comprehensive income  (Net gains on cash flow hedges) | |  | Total | | |
| Balance as at December 31, 2017 |  | $ 40,000 | $ | 88,127 | $ 99 | | $ | 128,226 | | |
| Balance as at January 1, 2018, as previously reported |  | 40,000 |  | 88,127 |  | 99 |  | 128,226 | | |
| Impact of change in accounting policy1 | 3.1 | - |  | 2,024 |  | - |  | 2,024 | | |
| Adjusted balance as at January 1, 2018 |  | 40,000 |  | 90,151 |  | 99 |  | 130,250 | | |
| Profit for the period |  | - |  | 10,686 |  | - |  | 10,686 | | |
| Other comprehensive income, net1 |  | - |  | - |  | 38 |  | 38 | | |
| Balance as at June 30, 2018 |  | $ 40,000 | $ | 100,837 | $ 137 | | $ | 140,974 | | |
| 1Amounts are net of income tax |  |  |  |  |  | | | |  |  |

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

**ROYAL CANADIAN MINT**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**Unaudited (CAD$ thousands)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | 13 weeks ended | | | 26 weeks ended | | | |
|  | Notes |  | **June 29, 2019** |  | June 30, 2018  (Note 22) |  | **June 29, 2019** |  | June 30, 2018  (Note 22) |
| **Cash flows from (used in) operating activities** |  |  |  |  |  |  |  |  |  |
| Profit for the period |  | **$** | **4,804** | $ | 5,883 | **$** | **12,489** | $ | 10,686 |
| Adjustments to reconcile profit to cash flows from operating activities: |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization | 18 |  | **5,020** |  | 4,394 |  | **10,076** |  | 8,718 |
| Income tax expense | 21 |  | **2,945** |  | 648 |  | **4,562** |  | 3,277 |
| Finance (income) cost, net |  |  | **(448)** |  | 204 |  | **(690)** |  | 95 |
| Other income |  |  | **(220)** |  | (227) |  | **(222)** |  | (228) |
| Net foreign exchange loss (gain) |  |  | **1,493** |  | (1,632) |  | **266** |  | (3,386) |
| Adjustments to other revenues, net | 22 |  | **(19,031)** |  | (4,231) |  | **(12,906)** |  | (3,050) |
| Changes in liability for Face Value redemptions |  |  | **(577)** |  | 267 |  | **(9)** |  | 1,377 |
| Net changes in operating assets and liabilities | 22 |  | **22,419** |  | (14,092) |  | **24,981** |  | (25,336) |
| Cash from (used in) operating activities before interest and income tax |  |  | **16,405** |  | (8,786) |  | **38,547** |  | (7,847) |
| Income tax paid, net | 22 |  | **(4,917)** |  | (4,017) |  | **(7,665)** |  | (6,812) |
| Interest received, net of interest paid | 22 |  | **405** |  | 240 |  | **633** |  | 461 |
| **Net cash from (used in) operating activities** |  |  | **11,893** |  | (12,563) |  | **31,515** |  | (14,198) |
| **Cash flows used in investing activities** |  |  |  |  |  |  |  |  |  |
| Acquisition of property, plant and equipment |  |  | **(2,025)** |  | (2,053) |  | **(3,730)** |  | (5,379) |
| Acquisition of intangible assets |  |  | **(495)** |  | (151) |  | **(652)** |  | (333) |
| **Net cash used in investing activities** |  |  | **(2,520)** |  | (2,204) |  | **(4,382)** |  | (5,712) |
| **Cash flows used in financing activities** |  |  |  |  |  |  |  |  |  |
| Lease principal payments | 15 |  | **(921)** |  | - |  | **(1,487)** |  | - |
| **Net cash used in financing activities** |  |  | **(921)** |  | - |  | **(1,487)** |  | - |
|  |  |  |  |  |  |  |  |  |  |
| Effect of changes in exchange rates on cash and cash equivalents |  |  | **(460)** |  | 439 |  | **(585)** |  | 726 |
|  |  |  |  |  |  |  |  |  |  |
| Increase (decrease) in cash and cash equivalents |  |  | **7,992** |  | (14,328) |  | **25,061** |  | (19,184) |
| Cash at the beginning of the period |  |  | **83,433** |  | 51,412 |  | **66,364** |  | 56,268 |
| **Cash and cash equivalents at the end of the period** |  | **$** | **91,425** | $ | 37,084 | **$** | **91,425** | $ | 37,084 |

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

**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 and carry out other related activities. The Corporation 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 Corporation 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.

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

While not subject to United States of America federal income taxes, the Corporation is subject in some states to state income taxes.

**2. BASIS OF PRESENTATION**

**2.1 Statement of Compliance**

These condensed consolidated financial statements were prepared in accordance with *IAS 34 Interim Financial Reporting* *(“IAS 34”)* of the *International Financial Reporting Standards* *(“IFRS”)* and the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board of Canada. As permitted under these standards, these condensed consolidated financial statements do not include all of the disclosure requirements for annual consolidated financial statements, and should be read in conjunction with the Corporation’s audited consolidated financial statements for its fiscal year ended December 31, 2018.

These condensed consolidated financial statements have not been audited or reviewed by an external auditor.

**2.2 Basis of presentation**

These condensed consolidated financial statements were prepared in accordance with IFRS.

Although the Corporation’s year end of December 31 matches the calendar year end, the Corporation’s quarter end dates do not necessarily coincide with calendar year quarters; instead, each of the Corporation’s quarters contains 13 weeks.

These condensed consolidated financial statements were approved for public release by the Board of Directors of the Corporation on August 22, 2019.

**2.3 Consolidation**

These condensed consolidated financial statements incorporate the financial statements of the Corporation and its wholly-owned subsidiary RCMH-MRCF Inc. The subsidiary adopted IFRS at the same time as the Corporation and its accounting policies are in line with those used by the Corporation. RCMH-MRCF Inc. has been operationally inactive since December 31, 2008. All intercompany transactions, balances, income and expenses are eliminated in full upon consolidation.

**2.4 Foreign currency translation**

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

**3. CHANGES IN ACCOUNTING POLICIES**

The Corporation consistently applied the accounting policies disclosed in note 2 of its audited consolidated financial statements for the year ended December 31, 2018 to all periods presented in these condensed consolidated financial statements, except as outlined below.

**3.1 Revenue from contracts with customers**

On January 1, 2018, the Corporation implemented IFRS 15 – *Revenue from Contracts with Customers* which resulted in a net adjustment to opening retained earnings on January 1, 2018 of $2.0 million. Refer to note 3.1 of the Corporation’s audited consolidated financial statements for the year ended December 31, 2018 for more information.

**3.2 Leases**

The Corporation adopted IFRS 16 – *Leases* (IFRS 16) with a date of initial application of January 1, 2019 using the modified retrospective approach. Under this method, the Corporation applied the standard retrospectively only to the most current period presented in the condensed consolidated financial statements and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening statement of financial position on January 1, 2019. Therefore, the comparative information for 2018 presented in the Corporation’s condensed consolidated financial statements for the 26 weeks ended June 29, 2019 has not been restated and continued to be reported under the accounting policies disclosed in Note 2.12 of the Corporation’s annual audited consolidated financial statements for the year ended December 31, 2018.

The Corporation’s leasing activities mainly relate to office space and production equipment.

**3.2.1 Leases where the Corporation is a lessee**

As a lessee, the Corporation previously classified leases as operating or finance lease based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognized right-of-use assets and lease liabilities for most of its leases.

At transition, the Corporation did not have any leases classified as finance leases under the previous lease standard, IAS 17, where it was the lessee. The lease liabilities for existing operating leases, other than short-term or low value leases, were measured at the present value of the remaining lease payments, discounted at the Corporation’s incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, any lease incentives, any initial direct costs incurred and any estimated costs to be incurred in restoring the site or dismantling and removing the underlying asset.

By electing to use the modified retrospective method, the Corporation calculated the lease liability using its incremental borrowing rate of between approximately 3.3% to 3.4% as at January 1, 2019.

The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

* Applied a single discount rate to a portfolio of leases with similar characteristics.
* Applied the exception not to recognize right-of-use assets and liabilities with less than 12 months of lease term.
* Applied the exception not to recognize right-of-use assets and liabilities for low value leases with individual asset values under $5,000 USD.
* Used hindsight when determining the lease term if the contract contained options to extent or terminate the lease.

**3.2.2 Leases where the Corporation is the lessor**

The Corporation is not required to make any adjustment on transition to IFRS 16 for leases in which it acts as a lessor, except for where there is a sub-lease.

Under IFRS 16, an intermediate lessor classifies a sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset, unless the head lease is short-term in nature or the underlying asset is of low value. Having considered the requirements in IFRS 16, the Corporation has classified its subleases as finance leases. The Corporation applied the practical expedients where the right-of-use assets were adjusted by the amount of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37) onerous contract provision immediately before the date of initial application, as an alternative to performing an impairment review.

As at January 1, 2019, the Corporation had two sublease arrangements, which were both previously assessed as onerous leases under IAS 37, and a liability was recorded in 2016 and 2017. As at January 1, 2019, the onerous lease liability of $1.0 million was reclassified against the respective right-of-use asset under IFRS 16.

**3.2.3 Impacts on financial statements**

The following tables summarize the expected impacts of adopting IFRS 16 on the Corporation’s condensed consolidated financial statements as at and for the 26 weeks ended June 29, 2019:

1. **Consolidated statement of financial position**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| As at January 1, 2019 |  | Balance with adoption of IFRS 16 |  | Adjustments |  | Balances without adoption of  IFRS 16 |
|  |  |  |  |  |  |  |
| Trade receivables, net and other receivables | $ | 1,004 | $ | (1,004) | $ | - |
| Right-of-use assets |  | 9,972 |  | (9,972) |  | - |
| Total assets | **$** | **408,788** | **$** | **(10,976)** | **$** | **397,812** |
| Provisions |  | 6,945 |  | 975 |  | 7,920 |
| Lease liabilities | $ | 11,951 | $ | (11,951) | $ | - |
| Total liabilities | **$** | **252,338** | **$** | **(10,976)** | **$** | **241,362** |
| Total liabilities and shareholder’s equity | **$** | **408,788** | **$** | **(10,976)** | **$** | **397,812** |

The table below shows the operating lease commitments at December 31, 2018 that are included in the lease liabilities at January 1, 2019:

|  |  |
| --- | --- |
|  | January 1, 2019 |
| Operating lease commitment as at December 31, 2018 | 13,343 |
| Discounted using the incremental borrowing rate as at January 1, 2019 | 10,538 |
| Add: Onerous lease provision | 975 |
| Other commitments not considered operating leases | 681 |
| Less: Leases of low-value assets | (243) |
| Lease liabilities as at January 1, 2019 | 11,951 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at June 29, 2019** |  | **As reported** |  | **Adjustments** |  | **Balances without adoption of  IFRS 16** |
|  |  |  |  |  |  |  |
| Trade receivables, net and other receivables | $ | 21,345 | $ | (888) | $ | 20,457 |
| Income tax receivable |  | 788 |  | (30) |  | 758 |
| Prepaid expenses |  | 6,978 |  | 126 |  | 7,104 |
| Deferred income tax assets |  | 36,350 |  | 30 |  | 36,380 |
| Right-of-use assets |  | 8,917 |  | (8,917) |  | - |
| **Total assets** | **$** | **399,107** | **$** | **(9,679)** | **$** | **389,428** |
| Provisions |  | 6,550 |  | 840 |  | 7,390 |
| Lease liabilities |  | 10,659 |  | (10,659) |  | - |
| **Total liabilities** | **$** | **230,267** | **$** | **(9,819)** | **$** | **220,448** |
| Retained earnings |  | 128,847 |  | 140 |  | 128,987 |
| **Total shareholder’s equity** |  | **168,840** |  | **140** |  | **168,980** |
| **Total liabilities and shareholder’s equity** | **$** | **399,107** | **$** | **(9,679)** | **$** | **389,428** |

1. **Consolidated statement of comprehensive income**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the 13 weeks ended June 29, 2019** |  | **As reported** |  | **Adjustments** |  | **Balances without adoption of  IFRS 16** |
| Cost of sales | $ | 246,325 | $ | 17 | $ | 246,342 |
| Administration expenses |  | 16,068 |  | (28) |  | 16,040 |
| Finance income (costs), net |  | 448 |  | 97 |  | 545 |
| **Income tax expense** |  | **(2,945)** |  | **(21)** |  | **(2,966)** |
| **Profit for the period** | **$** | **4,804** | **$** | **87** | **$** | **4,891** |
| **Total comprehensive income** | **$** | **4,779** | **$** | **87** | **$** | **4,866** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the 26 weeks ended June 29, 2019** |  | **As reported** |  | **Adjustments** |  | **Balances without adoption of  IFRS 16** |
| Cost of sales | $ | 564,977 | $ | 35 | $ | 565,012 |
| Administration expenses |  | 30,893 |  | 4 |  | 30,897 |
| Finance income (costs), net |  | 690 |  | 179 |  | 869 |
| **Profit for the period** | **$** | **12,489** | **$** | **140** | **$** | **12,629** |
| **Total comprehensive income** | **$** | **12,390** | **$** | **140** | **$** | **12,530** |

1. **Consolidated statement of cash flows**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **For the 13 weeks ended June 29, 2019** |  | **As reported** | | | | **Adjustments** | |  | | **Balances without adoption of  IFRS 16** |
| Profit for the period | | | $ | 4,804 | $ | | 87 | $ | 4,891 | |
| Adjustments to reconcile profit to cash flows   from operating activities: | | |  |  |  | |  |  |  | |
| Depreciation and amortization | | |  | 5,020 |  | | (542) |  | 4,478 | |
| Income tax expenses | | |  | 2,945 |  | | 21 |  | 2,966 | |
| Finance (income) cost, net | | |  | (448) |  | | (97) |  | (545) | |
| Adjustments to other revenues, net | | |  | (19,031) |  | | (136) |  | (19,167) | |
| Net changes in operating assets and liabilities | | |  | 22,419 |  | | (351) |  | 22,068 | |
| Cash from (used in) operating activities before interest and income tax | | |  | 16,405 |  | | (1,018) |  | 15,387 | |
| Interest received, net of interest paid | | |  | 405 |  | | 97 |  | 502 | |
| **Net cash from (used in) operating activities** | | | **$** | **11,893** | **$** | | **(921)** | **$** | **10,972** | |
|  | | |  |  |  | |  |  |  | |
| Lease principal payments | | |  | (921) |  | | 921 |  | - | |
| **Cash used in financing activities** | | | **$** | **(921)** | **$** | | **921** | **$** | **-** | |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the 26 weeks ended June 29, 2019** |  | **As reported** |  | **Adjustments** |  | **Balances without adoption of  IFRS 16** |
| Profit for the period | $ | 12,489 | $ | 140 | $ | 12,629 |
| Adjustments to reconcile profit to cash flows   from operating activities: |  |  |  |  |  |  |
| Depreciation and amortization |  | 10,076 |  | (1,054) |  | 9,022 |
| Finance (income) cost, net |  | (690) |  | (179) |  | (869) |
| Adjustments to other revenues, net |  | (12,906) |  | (136) |  | (13,042) |
| Net changes in operating assets and liabilities |  | 24,981 |  | (437) |  | 24,544 |
| Cash from (used in) operating activities before interest and income tax |  | 38,547 |  | (1,666) |  | 36,881 |
| Interest received, net of interest paid |  | 633 |  | 179 |  | 812 |
| **Net cash from (used in) operating activities** | **$** | **31,515** | **$** | **(1,487)** | **$** | **30,028** |
|  |  |  |  |  |  |  |
| Lease principal payments |  | (1,487) |  | 1,487 |  | - |
| **Cash used in financing activities** | **$** | **(1,487)** | **$** | **1,487** | **$** | **-** |

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGEMENTS**

The preparation of these condensed consolidated financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period.

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. Significant judgements and estimates as at June 29, 2019 were consistent with those disclosed in Note 4 of the Corporation’s audited consolidated financial statements for the year ended December 31, 2018.

**5. APPLICATION OF NEW AND REVISED IFRS**

**5.1 New and revised IFRS pronouncements affecting amounts reported and/or disclosed in the condensed consolidated financial statements for the 26 weeks ended June 29, 2019.**

The Corporation has reviewed the new and revised accounting pronouncements that have been issued which had mandatory effective dates of annual periods beginning on or after January 1, 2019.

1. The Corporation adopted IFRS 16 – *Leases* on January 1, 2019. The disclosure of the impact of the application of the new pronouncement on the Corporation’s consolidated financial statements is included in Note 3.
2. The following amendment was adopted by the Corporation on January 1, 2019 and did not have a significant impact on the consolidated financial statements.

*Annual improvements to IFRSs 2015-2017*

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015–2017 Cycle. The standards covered by the amendments are: IFRS 3 - Business Combinations which clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. IFRS 11 - Joint Arrangements which clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. IAS 12 - Income Taxes which clarifies that all income tax consequences of dividends should be recognized in profit or loss, regardless of how the tax arises. IAS 23 - Borrowing Costs which clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

**5.2 New and revised IFRS pronouncements issued, but not yet effective**

The Corporation has reviewed the revised accounting pronouncements that have been issued, but are not yet effective and has made the following assessments of their impact on the consolidated financial statements.

1. The adoption of the following IFRS pronouncement has been assessed as having a possible impact on the Corporation’s consolidated financial statements in the future.

*Conceptual Framework for Financial Reporting*

In March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting, which provides a set of concepts to assist the IASB in developing standards and to help preparers consistently apply accounting policies where specific accounting standards do not exist. The Revised Conceptual Framework describes that financial information must be relevant and faithfully represented to be useful; provides revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. The framework is not an accounting standard and does not override the requirements that exist in other IFRS standards. The revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020.

**6. TRADE RECEIVABLES, NET AND OTHER RECEIVABLES**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | As at | | | | |
|  | | **June 29, 2019** | | December 31,2018 | |
| Receivables and accruals from contracts with customers | | **$** | **16,315** | $ | 37,918 |
| Receivables from contracts with related parties (Note 23) | |  | **4,017** |  | 443 |
| Allowance for estimated credit losses | |  | **(596)** |  | (274) |
| Net trade receivables | |  | **19,736** |  | 38,087 |
| Lease receivables | |  | **242** |  | - |
| Other current financial receivables | |  | **258** |  | 384 |
| Other receivables | |  | **463** |  | 293 |
| Total current trade receivables, net and other receivables | | **$** | **20,699** | $ | 38,764 |
| Non-current lease receivables | |  | **646** |  | - |
| Total non-current trade receivables, net and other receivables | | **$** | **646** | $ | - |
| **Trade receivables, net and other receivables** | | **$** | **21,345** | $ | 38,764 |

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

The following represents a reconciliation of the opening and closing balance of the lease receivable balance:

|  |  |  |
| --- | --- | --- |
|  | **Lease Receivable** | |
| Balance as at January 1, 2019 | **$** | **1,004** |
| Interest income |  | **16** |
| Sublease payments received |  | **(132)** |
| Balance as at June 29, 2019 | **$** | **888** |

Total cash inflow for leases included in lease receivables for the 13 weeks and 26 weeks ended June 29, 2019 was $0.1 million and $0.1 million, respectively.

**7. INVENTORIES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Total inventories | **$** | **53,565** | $ | 62,239 |

The Corporation recognized write-downs of inventory to net realizable value of $2.6 million for the 26 weeks ended June 29, 2019 (26 weeks ended June 30, 2018 - $1.7 million).

**8. CONTRACT ASSETS AND LIABILITIES**

The contract assets relate to the Corporation’s rights to consideration for work completed, but not billed as at June 29, 2019. The Corporation reviewed its credit risk exposure related to contract assets as at June 29, 2019 and evaluated the risk to be minimal as each related contract is subject to a contract specific risk assessment process. The contract liabilities relate to the consideration received in advance from customers for which revenue has not yet been recognized and accrued expenses related to contract assets.

Significant changes in the contract asset and liability balances were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **As at June 29, 2019** | | | |
|  | **Contract Assets** | | **Contract Liabilities** | |
| Opening balance, January 1, 2019 | **$** | **17,304** | **$** | **14,590** |
| Revenue recognized |  | **-** |  | **(6,717)** |
| Cash received, excluding amounts recognized during the period |  | **-** |  | **2,637** |
| Transfers from contract liabilities to payables |  | **-** |  | **267** |
| Foreign exchange revaluation |  | **(588)** |  | **(102)** |
| Transfers from contract assets to receivables |  | **(21,338)** |  | **-** |
| Increases resulting from changes in the measure of progress1 |  | **17,842** |  | **1,012** |
| Closing balance | **$** | **13,220** | **$** | **11,687** |

1 Increases resulting from changes in the measure of progress in contract liabilities include $0.7 million related to the Corporation’s Memorandum of Understanding with the Department of Finance (Note 23)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at June 30, 2018 | | | |
|  | Contract Assets | | Contract Liabilities | |
| Opening balance, January 1, 2018 | $ | 11,257 | $ | 3,563 |
| Revenue recognized |  | - |  | - |
| Cash received, excluding amounts recognized during the period |  | - |  | 665 |
| Transfers from contract liabilities to payables |  | - |  | (6,659) |
| Foreign exchange revaluation |  | (202) |  | 19 |
| Transfers from contract assets to receivables |  | (22,725) |  | - |
| Increases resulting from changes in the measure of progress |  | 20,018 |  | 6,888 |
| Closing balance | $ | 8,348 | $ | 4,476 |

**9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

**9.1 Capital risk management**

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. For the 26 weeks ended June 29, 2019, approved short-term borrowings for working capital needs within this limit were not to exceed $25 million (26 weeks ended June 30, 2018 - $25 million) or its US Dollar equivalent.

To support such short-term borrowings, as may be required from time to time, the Corporation has various commercial borrowing lines of credit made available to it by Canadian financial institutions. These lines are unsecured and provide for borrowings up to 364 days in term based on negotiated rates. No amounts were borrowed under these lines of credit as at June 29, 2019 or December 31, 2018.

The Corporation employs a dividend framework to calculate dividends payable to its shareholder. The calculated dividend amount represents the projected excess year end cash over a pre-determined cash reserve requirement and is expected to be paid in the fourth quarter of each year.

**9.2 Classification and fair value measurements of financial instruments**

**9.2.1 Carrying amount and fair value of financial instruments**

The classification, as well as the carrying amount and fair value of the Corporation’s financial assets and financial liabilities are presented in the following table:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | As at | | | | | | | |
|  | **June 29, 2019** | | | | December 31, 2018 | | | |
|  | **Carrying Amount** | | **Fair Value** | | Carrying Amount | |  | Fair Value |
| **Financial Assets** |  |  |  |  |  |  |  |  |
| **Amortized cost** |  |  |  |  |  |  |  |  |
| Cash and cash equivalents | **$** | **91,425** | **$** | **91,425** | $ | 66,364 | $ | 66,364 |
| Trade receivables, net and other receivables |  | **19,994** |  | **19,994** |  | 38,471 |  | 38,471 |
| **Derivatives at FVTPL** |  |  |  |  |  |  |  |  |
| Derivative financial assets: |  |  |  |  |  |  |  |  |
| Foreign currency forwards |  | **190** |  | **190** |  | 19 |  | 19 |
| **Derivatives at FVOCI** |  |  |  |  |  |  |  |  |
| Derivative assets: |  |  |  |  |  |  |  |  |
| Interest rate swap |  | **-** |  | **-** |  | 123 |  | 123 |
| **Financial Liabilities** |  |  |  |  |  |  |  |  |
| **Amortized cost** |  |  |  |  |  |  |  |  |
| Trade payables, other payables and accrued liabilities |  | **32,293** |  | **32,293** |  | 45,109 |  | 45,109 |
| Loan payable |  | **11,991** |  | **11,994** |  | 11,989 |  | 11.995 |
| **Derivatives at FVTPL** |  |  |  |  |  |  |  |  |
| Derivative financial liabilities: |  |  |  |  |  |  |  |  |
| Foreign currency forwards |  | **85** |  | **85** |  | 2,087 |  | 2,087 |
| **Derivatives at FVOCI** |  |  |  |  |  |  |  |  |
| Interest rate swaps |  | **10** |  | **10** |  | - |  | - |

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

**9.2.2 Fair value hierarchy**

Financial instruments, other than those that are not subsequently measured at fair value and for which fair value approximates carrying value, whether or not they are carried at fair value in the condensed consolidated statement of financial position, must be disclosed at their fair value and be classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

* 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).

The fair value measurement of cash and cash equivalents are classified as Level 1 of the fair value hierarchy as at June 29, 2019 and December 31, 2018. The fair value measurements of all other financial instruments held by the Corporation are classified as Level 2 of the fair value hierarchy as at June 29, 2019 and December 31, 2018. There were no transfers of financial instruments between levels for the 26 weeks ended June 29, 2019.

**9.2.3 Classification and fair value techniques of financial instruments**

The Corporation holds financial instruments in the form of cash and cash equivalents, accounts receivable, derivative assets, accounts payable and accrued liabilities, loans payable and derivative liabilities.

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

i) The carrying amounts of cash and cash equivalents, 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 value of loans payable are 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 and interest rate swaps 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.

The table below details the types of derivative financial instruments carried at fair value:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| **Derivative financial assets** |  |  |  |  |
| Foreign currency forwards | **$** | **190** | $ | 19 |
| Interest rate swaps |  | **-** |  | 123 |
|  | **$** | **190** | $ | 142 |
| **Derivative financial liabilities** |  |  |  |  |
| Foreign currency forwards | **$** | **85** | $ | 2,087 |
| Interest rate swaps |  | **10** |  | - |
|  | **$** | **95** | $ | 2,087 |

**9.3 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 financial risk management framework. The Audit Committee assists the Board of Directors and is responsible for review, approval and monitoring of the Corporation’s financial risk management policies. The Audit Committee reports regularly to the Board of Directors on its activities.

**9.3.1 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 cash equivalents 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 condensed consolidated financial statements as at June 29, 2019 and December 31, 2018 represents the maximum credit exposure.

**9.3.1.1 Credit risk management of receivables from customers**

The Corporation’s exposure to credit risk associated with accounts receivable is influenced mainly by the individual characteristics of each customer, however the Corporation also considers the demographics of the Corporations’ customer base, including the risk associated with the type of customer and country in which the customer operates.

The Corporation manages this risk by monitoring the creditworthiness of customers and obtaining pre-payment or other forms of payment security from customers with an unacceptable level of credit risk. The Corporation has established processes over contracting with foreign customers in order to manage the risk relating to foreign customers. The Corporation’s management reviews the detailed accounts receivable listing on a regular basis for changes in customer balances which could present collectability issues. An accrual for estimated credit loss (ECL) is provided for accounts with collectability issues when needed.

The maximum exposure to credit risk for accounts receivable by geographic regions was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Canada | **$** | **13,101** | $ | 11,295 |
| Latin America and Caribbean |  | **3,319** |  | 7,765 |
| Asia and Australia |  | **2,896** |  | 18,671 |
| United States |  | **1,580** |  | 606 |
| Europe, Middle East and Africa |  | **449** |  | 427 |
| Total trade receivables, net and other receivables | **$** | **21,345** | $ | 38,764 |

The maximum exposure to credit risk for accounts receivable by type of customer was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Consumers, dealers and others | **$** | **9,716** | $ | 10,704 |
| Central and institutional banks |  | **6,477** |  | 26,160 |
| Governments (including governmental departments and agencies) |  | **5,152** |  | 1,900 |
| Total trade receivables, net and other receivables | **$** | **21,345** | $ | 38,764 |

The Corporation established an allowance for ECLs based on a provision matrix that reflected the estimated impairment of trade receivables and other receivables. The provision matrix was based on historical observed default rates and was adjusted for forward-looking estimates. The Corporation sets different payment terms depending on the customer and product, which results in an average of 30 day payment terms. As at June 29 2019, the Corporation’s rate of credit losses was less than 3% of total trade receivables and other receivables.

**9.3.2 Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as theyfall 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.

**9.3.3 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, from time to time, derivative instruments, such as foreign currency forward contracts, interest rate exchange agreements and commodity swaps 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 and short term cash management requirements that are denominated in foreign currencies, primarily in US dollars and Euros. The Corporation manages its exposure to exchange rate fluctuations between the foreign currency and the Canadian dollar by entering into foreign currency forward contracts. The Corporation also uses such contracts in 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. The Corporation’s Bankers Acceptance interest rate swap loan instruments expose the Corporation to cash flow interest rate risk. The Corporation has fully hedged the exposure to fluctuations in interest rates related to these instruments by entering into corresponding interest rate swaps, where the Corporation pays a fixed interest rate in exchange for receiving a floating interest rate. The interest rate swaps are designated as hedging instruments 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. The Corporation’s interest rate swaps expose the Corporation to fair value interest rate risk.

**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 its 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. For numismatic sales the Corporation enters into short term purchase commitments for precious and base metals to mitigate the commodity price risk (Note 24).

For contracts that are entered into for the purpose of procuring commodities to be used in production, the Corporation applies the normal purchases classification.

The impact of commodity price risk fluctuation on the condensed consolidated financial statements is not significant because the Corporation’s un-hedged commodity volume is not significant.

**10. 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:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Cost | **$** | **430,913** | $ | 429,019 |
| Accumulated depreciation |  | **(271,990)** |  | (264,849) |
| Net book value | **$** | **158,923** | $ | 164,170 |

**Net book value by asset class**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Land and land improvements | **$** | **3,066** | $ | 3,068 |
| Buildings and building improvements |  | **88,032** |  | 89,573 |
| Equipment |  | **65,560** |  | 69,172 |
| Capital projects in process |  | **2,265** |  | 2,357 |
| Net book value | **$** | **158,923** | $ | 164,170 |

During the 26 weeks ended June 29, 2019, the Corporation acquired $1.9 million (26 weeks ended June 30, 2018 - $4.7 million) worth of building and leasehold improvements and equipment. No capital assets have been transferred to different categories within property, plant and equipment.

Included in property, plant and equipment additions for the 26 weeks ended June 29, 2019 is a total accrual of $0.5 million (December 31, 2018 - $2.4 million).

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

No asset is pledged as security for borrowings as at June 29, 2019.

**Intangible assets**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Cost | **$** | **34,877** | $ | 34,217 |
| Accumulated amortization and impairment |  | **(27,707)** |  | (25,827) |
| Net book value | **$** | **7,170** | $ | 8,390 |

During the 26 weeks ended June 29, 2019, the Corporation acquired $0.7 million (26 weeks ended June 30, 2018 - $0.8 million) worth of software. No capital assets have been transferred to different categories within intangible assets.

Included in intangible asset additions for the 26 weeks ended June 29, 2019 is a total accrual of $0.1 million (December 31, 2018 - $0.1 million).

**11. RIGHT-OF-USE ASSETS**

Right-of-use assets represent leases which were previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16.

The following represents a reconciliation of the opening and closing balance of the right-of-use assets:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Right-of-use Assets** | | | | | |
|  | **Building and building improvements** | | **Equipment** | | **Total** | |
| Cost as at January 1, 2019 | **$** | **6,219** | **$** | **3,753** | **$** | **9,972** |
| Accumulated depreciation |  | **(481)** |  | **(574)** |  | **(1,055)** |
| Net book value as at June 29, 2019 | **$** | **5,738** | **$** | **3,179** | **$** | **8,917** |

**12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED LIABILITIES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | |  | |
| **June 29, 2018** | | | | December 31, 2018 |
| Trade payables | | **$ 5,168** | | $ 4,007 |
| Other current financial liabilities1 | | **26,881** | | 40,828 |
| Other accounts payable and accrued liabilities | | **2,302** | | 4,164 |
| Total current trade payable, other payables and accrued liabilities | | **$ 34,351** | | $ 48,999 |
| Other non-current financial liabilities | | **244** | | 274 |
| Total non-current trade payables, other payables and accrued liabilities | | **$ 244** | | $ 274 |
| Trade payables, other payables and accrued liabilities | | **$ 34,595** | | $ 49,273 |

1 Other current financial liabilities include payables that are not trade in nature, as well as various operating and capital accruals.

**13. PROVISIONS**

The following table presents the changes in the provisions:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  |  | **June 29, 2019** | December 31, 2018 | |
| Carrying amount at the beginning of the year | **$** | **7,920** | $ | 6,749 |
| Additional provisions recognized |  | **1,311** |  | 4,043 |
| Payments |  | **(1,315)** |  | (1,092) |
| Derecognition of provisions1 |  | **(1,338)** |  | (1,780) |
| Foreign exchange loss |  | **(28)** |  | - |
| Carrying amount at the end of the year | **$** | **6,550** | $ | 7,920 |

1 Derecognition of provisions includes $1.0 million of onerous lease provisions which were reclassified against right–of-use assets on January 1, 2019 as disclosed in note 3.2 to these condensed consolidated financial statements.

Provisions include the following**:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Sales returns and warranty | **$** | **2,554** | $ | 2,264 |
| Restructuring and other employee compensation |  | **3,152** |  | 3,374 |
| Other provisions |  | **844** |  | 2,282 |
| Total provisions | **$** | **6,550** | $ | 7,920 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Current portion | **$** | **5,100** | $ | 5,784 |
| Non-current portion |  | **1,450** |  | 2,136 |
| Total provisions | **$** | **6,550** | $ | 7,920 |

**14. FACE VALUE REDEMPTIONS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Face Value redemptions | **$** | **179,345** | $ | 180,224 |
| Precious metal recovery |  | **(37,967)** |  | (40,405) |
| Face Value redemptions, net |  | **141,378** |  | 139,819 |
| Less: Current portion |  | **(1,241)** |  | (1,292) |
| Non-current Face Value redemptions, net | **$** | **140,137** | $ | 138,527 |
|  |  |  |  |  |
|  | As at | | | |
|  | **June 29, 2019** | | December 31,2018 | |
| Opening balance | **$** | **139,819** | $ | 141,135 |
| Redemptions, net |  | **(696)** |  | (1,455) |
| Revaluation |  | **2,255** |  | 139 |
| Ending balance | **$** | **141,378** | $ | 139,819 |

As at June 29, 2019, the Corporation determined that it continues to be unable to reliably estimate the redemptions of Face Value coins.

Face Value redemptions represent the expected cash outflows if all Face Value coins are redeemed, including the costs of redemptions offset by the precious metal content that will be reclaimed by the Corporation when the coins are redeemed. The precious metal recovery component of the liability is based on the market value of silver as at each financial statement reporting date. The impact of the revaluation of the precious metal component of the liability, including the impact of the foreign currency balance sheet revaluation, was an increase of $0.5 million and $2.3 million, respectively, for the 13 and 26 weeks ended June 29, 2019 (13 and 26 weeks ended June 30, 2018 – an increase of $0.2 million and $0.1 million).

The current portion of the liability for Face Value redemptions is based on the redemptions for the last 12 months, as the Corporation continues to determine that it is unlikely that all outstanding Face Value coins will be redeemed in the next 12 months as Face Value coins are widely held and the redemption process takes time to complete.

The Corporation continues to monitor the redemption levels of Face Value coins to ensure requisite funding for future redemptions is maintained.

**15. LEASE LIABILITIES**

Lease liabilities represent the Corporation’s obligations that arise from lease contracts under IFRS 16 and are calculated based on the present value of lease liabilities as of January 1, 2019.

The following represents a reconciliation of the opening and closing balance of the lease liability balance:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Lease Liabilities** | | | | | |
|  | **Building and building improvements** | | **Equipment** | | **Total** | |
| Balance as at January 1, 2019 | **$** | **8,198** | **$** | **3,753** | **$** | **11,951** |
| Interest expense |  | **135** |  | **60** |  | **195** |
| Lease payments |  | **(880)** |  | **(607)** |  | **(1,487)** |
| Balance as at June 29, 2019 | **$** | **7,453** | **$** | **3,206** | **$** | **10,659** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Lease Liabilities** | | | | | |
|  | **Building and building improvements** | | **Equipment** | | **Total** | |
| Current | **$** | **1,303** | **$** | **1,112** | **$** | **2,415** |
| Non-current |  | **6,150** |  | **2,094** |  | **8,244** |
| Balance as at June 29, 2019 | **$** | **7,453** | **$** | **3,206** | **$** | **10,659** |

Total cash outflow for leases included in lease liabilities for the 13 weeks and 26 weeks ended June 29, 2019 is $0.9 million and $1.5 million, respectively.

**16. EMPLOYEE COMPENSATION AND BENEFITS**

**Pension benefits**

The Corporation made total contributions of $5.5 million in the 26 weeks ended June 29, 2019 (26 weeks ended June 30, 2018 - $5.5 million).

See Note 19 in the audited consolidated financial statements for the year ended December 31, 2018 for details on the Corporation’s pension and other post-employment benefit plans.

**17. REVENUE**

**17.1 Revenue by performance obligation**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | | |
|  |  | **June 29, 2019** |  | June 30, 20181 |  | **June 29, 2019** | |  | June 30, 20181 |
| **Performance obligations satisfied at a point in time** |  |  |  |  |  | |  |  |  |
| Sale of goods | **$** | **239,451** | $ | 223,936 | **$** | | **553,691** | $ | 526,486 |
| Rendering of services |  | **2,323** |  | 3,526 |  | | **8,358** |  | 6,107 |
| Total revenue recognized at a point in time | **$** | **241,774** | $ | 227,462 | **$** | | **562,049** | $ | 532,593 |
| **Performance obligations satisfied over time** |  |  |  |  |  | |  |  |  |
| Sale of goods |  | **9,994** |  | 9,680 |  | | **16,410** |  | 21,078 |
| Rendering of services |  | **26,630** |  | 23,592 |  | | **50,646** |  | 47,942 |
| Total revenue recognized over time | **$** | **36,624** | $ | 33,272 | **$** | | **67,056** | $ | 69,020 |
| Total revenue | **$** | **278,398** | $ | 260,734 | **$** | | **629,105** | $ | 601,613 |

1 Prior year figures have been reclassified to align with this year’s presentation and to move $18.7 million and $38.8 million for the 13 weeks and 26 weeks ended June 30, 2018, respectively, of Canadian Circulation services from sale of goods to rendering of services.

Revenue from the sale of goods is presented net of cost of sales in cases where the Corporation is not the principal in the transaction (“Customer inventory deals”). The following is a reconciliation of the gross revenue from the sale of goods and the net revenue presented:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | 26 weeks ended | | | |
|  |  | **June 29, 2019** |  | June 30, 20181 |  | **June 29, 2019** |  | June 30, 20181 |
| Gross revenue from the sale of goods | **$** | **321,149** | $ | 323,714 | **$** | **746,813** | $ | 700,069 |
| Less: Customer inventory deals |  | **(71,704)** |  | (90,098) |  | **(176,712)** |  | (152,505) |
| Net revenue from the sale of goods | **$** | **249,445** | $ | 233,616 | **$** | **570,101** | $ | 547,564 |

1 Prior year figures have been reclassified to align with this year’s presentation and to move $18.7 million and $38.8 million for the 13 weeks and 26 weeks ended June 30, 2018, respectively, of Canadian Circulation services from sale of goods to rendering of services.

**17.2 Disaggregation of Revenue**

In the following table, revenue is disaggregated by primary geographical region, business and timing of revenue recognition.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | | 26 weeks ended | | |
| **Primary Geographic Regions** |  | **June 29, 2019** |  | June 30, 2018 |  | **June 29, 2019** |  | June 30, 2018 |
| North America1 | **$** | **181,060** | $ | 173,304 | **$** | **414,145** | $ | 359,976 |
| Europe, Middle East & Africa1 |  | **65,396** |  | 68,725 |  | **160,249** |  | 188,141 |
| Asia & Australia |  | **28,704** |  | 11,792 |  | **46,532** |  | 39,813 |
| Latin America & Caribbean |  | **3,238** |  | 6,913 |  | **8,179** |  | 13,683 |
| Total revenue | **$** | **278,398** | $ | 260,734 | **$** | **629,105** | $ | 601,613 |

1 Prior year figures have been reclassified for the 13 weeks and 26 weeks ended June 30, 2018 to move $12.5 million and $15.8 million, respectively, of revenue related to Bullion compensation arrangements from Europe, Middle East & Africa to North America.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | 26 weeks ended | | | |
| **Business** |  | **June 29, 2019** |  | June 30, 2018 |  | **June 29, 2019** |  | June 30, 2018 |
| Canadian Circulation | **$** | **25,523** | $ | 22,834 | **$** | **46,954** | $ | 45,420 |
| Foreign Circulation |  | **14,501** |  | 15,220 |  | **23,168** |  | 33,779 |
| Bullion Products and Services |  | **206,413** |  | 193,884 |  | **499,716** |  | 465,581 |
| Numismatics |  | **31,961** |  | 28,796 |  | **59,267** |  | 56,833 |
| Total revenue | **$** | **278,398** | $ | 260,734 | **$** | **629,105** | $ | 601,613 |

**17.3 Transaction price allocated to the remaining performance obligations**

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as at June 29, 2019.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2019** | **2020** | **2021** | **Total** |
| Total revenue | **$ 80,003** | **$ 86,740** | **$ 71,433** | **$ 238,176** |

The Corporation has other contracts with terms longer than 12 months that include unsatisfied performance obligations that are dependent on volumes. These contracts are excluded from the table above as the Corporation cannot reliably measure the unsatisfied performance obligations. Under these contracts, customers have the option to increase or decrease the volume over the terms of their respective contracts and therefore, the unsatisfied performance obligation, would be impacted by this decision.

**18. DEPRECIATION AND AMORTIZATION EXPENSE**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | June 30, 2018 | |
| Depreciation of property, plant and equipment | **$** | **3,535** | $ | 3,489 | **$** | **7,141** | $ | 6,888 |
| Amortization of intangible assets |  | **942** |  | 905 |  | **1,880** |  | 1,830 |
| Depreciation of right-of-use assets |  | **543** |  | - |  | **1,055** |  | - |
| Total depreciation and amortization expense | **$** | **5,020** | $ | 4,394 | **$** | **10,076** | $ | 8,718 |

Depreciation and amortization expense were reclassified to operating expense as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | June 30, 2018 | |
| Cost of sales | **$** | **3,008** | $ | 2,645 | **$** | **6,074** | $ | 5,244 |
| Marketing and sales expenses |  | **713** |  | 705 |  | **1,430** |  | 1,401 |
| Administration expenses |  | **1,299** |  | 1,044 |  | **2,572** |  | 2,073 |
| Total depreciation and amortization expense | **$** | **5,020** | $ | 4,394 | **$** | **10,076** | $ | 8,718 |

**19. EMPLOYEE COMPENSATION EXPENSES**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 20181 | | **June 29, 2019** | | June 30, 20181 | |
| **Included in cost of sales:** |  |  |  |  |  |  |  |  |
| Short term employee benefits including salaries and wages | **$** | **8,279** | $ | 7,588 | **$** | **17,204** | $ | 16,172 |
| Pension costs |  | **1,645** |  | 1,732 |  | **2,753** |  | 2,917 |
| Long term employee and post-employment benefits other than pension |  | **549** |  | 635 |  | **1,164** |  | 1,353 |
| Termination benefits |  | **-** |  | 3 |  | **(26)** |  | 40 |
|  |  |  |  |  |  |  |  |  |
| **Included in marketing and sales expenses:** |  |  |  |  |  |  |  |  |
| Short term employee benefits including salaries and wages |  | **3,060** |  | 3,853 |  | **7,097** |  | 8,198 |
| Pension costs |  | **548** |  | 576 |  | **843** |  | 912 |
| Long term employee and post-employment benefits other than pension |  | **93** |  | 151 |  | **193** |  | 331 |
| Termination benefits |  | **-** |  | - |  | **(16)** |  | (33) |
|  |  |  |  |  |  |  |  |  |
| **Included in administration expenses:** |  |  |  |  |  |  |  |  |
| Short term employee benefits including salaries and wages |  | **8,410** |  | 7,262 |  | **17,055** |  | 15,057 |
| Pension costs |  | **1,263** |  | 1,115 |  | **1,937** |  | 1,740 |
| Long term employee and post-employment benefits other than pension |  | **263** |  | 292 |  | **633** |  | 663 |
| Termination benefits |  | **54** |  | (28) |  | **67** |  | 61 |
| Total employee compensation and benefits expense | **$** | **24,164** | $ | 23,179 | **$** | **48,904** | $ | 47,411 |

1 Prior year figures have been reclassified to conform to current year presentation.

**20. SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SRED) EXPENSES, NET**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | | June 30, 2018 | |
| SRED expenses | **$** | **1,330** | $ | 1,009 | **$** | | **2,700** | $ | 1,960 |
| SRED investment tax credit |  | **(160)** |  | (293) |  | | **(330)** |  | (412) |
| SRED expenses, net | **$** | **1,170** | $ | 716 | **$** | | **2,370** | $ | 1,548 |

The net expenses for scientific research and experimental development are included in the administration expenses in the condensed consolidated statement of comprehensive income.

**21. INCOME TAXES**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | | June 30, 2018 | |
| Current income tax expense | **$** | **2,697** | $ | 2,021 | **$** | | **4,682** | $ | 5,219 |
| Deferred income tax recovery |  | **248** |  | (1,373) |  | | **(120)** |  | (1,942) |
| Income tax expense | **$** | **2,945** | $ | 648 | **$** | | **4,562** | $ | 3,277 |

The Corporation’s effective income tax expense on profit before income tax differs from the amount that would be computed by applying the federal statutory income tax rate of 25% (2018 – 25%). The Corporation’s effective income tax rate was 38% for the 13 weeks and 26.75% for the 26 weeks ended June 29, 2019 due to an increase in taxable income as a result of temporary differences between income for accounting and tax purposes and due to adjustments reported in the second quarter related to the filing of the annual income tax returns.

**22. SUPPLEMENTAL CASH FLOW INFORMATION**

**22.1 Reclassification**

The Corporation modified its consolidated statement of cash flows for the year ended December 31, 2018 to better represent the movements in provisions, prepaid expenses and foreign exchange that were reclassified within operating activities. For more information on this reclassification refer to note 29 in the Corporation`s audited consolidated financial statements for the year ended December 31, 2018.

The following table shows the combined impact of these reclassifications:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | |
|  | June 30, 2018 | | | | | |
| Increase (decrease) | As previously reported | | Reclassification | | As reclassified | |
|  |  |  |  |  |  |  |
| Adjustments to other (revenues) expenses, net | $ | (2,255) | $ | (1,976) | $ | (4,231) |
| Net changes in operating assets and liabilities |  | (16,068) |  | 1,976 |  | (14,092) |
|  |  |  |  |  |  |  |
|  | 26 weeks ended | | | | | |
|  | June 30, 2018 | | | | | |
| Increase (decrease) | As previously reported | | Reclassification | | As reclassified | |
|  |  |  |  |  |  |  |
| Adjustments to other (revenues) expenses, net | $ | (3,682) | $ | 632 | $ | (3,050) |
| Net changes in operating assets and liabilities |  | (24,704) |  | (632) |  | (25,336) |

**22.2 Supplemental cash flow information**

Adjustments to other (revenue) expenses, net, were comprised of the following:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | | | |
|  | **June 29, 2019** | | June 30, 20181 | | **June 29, 2019** | | | June 30, 20181 | | |
| Expenses |  |  |  |  | |  |  | |  |  |
| Employee benefits expenses | **$** | **3,438** | $ | 3,422 | | **$** | **5,511** | | $ | 5,539 |
| Employee benefits paid |  | **(3,294)** |  | (3,307) | |  | **(5,526)** | |  | (5,549) |
| Inventory write-downs |  | **(787)** |  | 78 | |  | **(881)** | |  | (490) |
| Gain on disposal of assets |  | **-** |  | (44) | |  | **-** | |  | (44) |
| Prepaid expenses1 |  | **439** |  | 454 | |  | **878** | |  | 909 |
| Provisions1 |  | **1,501** |  | (2,430) | |  | **921** | |  | (277) |
| Other non-cash expenses, net1 |  | **182** |  | 338 | |  | **322** | |  | 457 |
| Revenue |  |  |  |  | |  |  | |  |  |
| Foreign circulation revenue |  | **(12,252)** |  | (1,571) | |  | **(5,470)** | |  | (1,252) |
| Bullion service revenue |  | **(8,258)** |  | (1,171) | |  | **(8,661)** | |  | (2,343) |
|  | **$** | **(19,031)** | $ | (4,231) | | **$** | **(12,906)** | | $ | (3,050) |

1 Prior year figures have been reclassified to conform to current year presentation.

The net change in operating assets and liabilities shown in the condensed consolidated statement of cash flow was comprised of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 20181 | | **June 29, 2019** | | June 30, 20181 | |
| Trade receivables, net and other receivables | **$** | **44,323** | $ | 1,039 | **$** | **38,157** | $ | (4,377) |
| Inventories |  | **(12,421)** |  | (5,664) |  | **116** |  | 13 |
| Prepaid expenses |  | **(1,542)** |  | (512) |  | **(3,724)** |  | (2,247) |
| Trade payables, other payables and accrued liabilities |  | **(10,449)** |  | (8,313) |  | **(10,960)** |  | (17,384) |
| Contract liabilities |  | **3,752** |  | (642) |  | **2,636** |  | (1,341) |
| Provisions |  | **(1,244)** |  | - |  | **(1,244)** |  | - |
|  | **$** | **22,419** | $ | (14,092) | **$** | **24,981** | $ | (25,336) |

1 Prior year figures have been reclassified to conform to current year presentation.

Income tax paid was comprised of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | June 30, 2018 | |
| Income tax received |  | **21** |  | - |  | **21** |  | - |
| Income tax paid |  | **(4,938)** |  | (4,017) |  | **(7,686)** |  | (6,812) |
|  | **$** | **(4,917)** | $ | (4,017) | **$** | **(7,665)** | $ | (6,812) |
|  |  |  |  |  |  |  |  |  |

Interest received, net, was comprised of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | June 30, 2018 | |
| Interest received | **$** | **581** | $ | 364 | **$** | **950** | $ | 674 |
| Interest paid |  | **(176)** |  | (124) |  | **(317)** |  | (213) |
|  | **$** | **405** | $ | 240 | **$** | **633** | $ | 461 |

**23. 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 the 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.

Transactions with related parties that are considered to be individually or collectively significant, include transactions with the Government of Canada, and departments thereof and all federal Crown corporations.

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

The transactions with DOF were as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | 26 weeks ended | | | |
|  | **June 29, 2019** | | June 30, 2018 | | **June 29, 2019** | | June 30, 2018 | |
| Revenue from DOF | **$** | **23,352** | $ | 21,064 | **$** | **42,974** | $ | 41,517 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | As at | | | |
|  | **June 29, 2019** | | December 31, 2018 | |
| Receivable from DOF | **$** | **4,017** | $ | 443 |
| Contract liability |  | **1,229** |  | 509 |

The majority of transactions with Crown corporations were for the sales of numismatic product.

**24. COMMITMENTS, CONTINGENCIES AND GUARANTEES**

**24.1 Precious metal commitments**

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 metal leases. As at June 29, 2019, the Corporation had $9.9 million in outstanding precious metal purchase commitments (December 31, 2018 – $16.1 million).

As at June 29, 2019, the Corporation had entered into precious metal leases as follows:

|  |  |  |
| --- | --- | --- |
|  | As at | |
| *Ounces* | **June 29, 2019** | December 31, 2018 |
| Gold | **203,595** | 262,843 |
| Silver | **7,571,415** | 5,785,450 |
| Platinum | **13,156** | 18,781 |

The fees for these leases are based on market value. The precious metal lease payments expensed for the 26 weeks ended June 29, 2019 were $1.3 million (26 weeks ended June 30, 2018 - $1.3 million). The value of the metals under these leases has not been reflected in the Corporation’s condensed consolidated financial statements since these agreements do not meet the definition of a lease under IFRS 16 as the Corporation intends to settle these commitments through receipt or delivery of the underlying metal, but not a specific asset.

**24.2 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 at June 29, 2019, under the guarantees and bid bonds, the maximum potential amount of future payments is $17.8 million (December 31, 2018 - $16.1 million).

**24.3 Other commitments and contingencies**

Total estimated minimum remaining future commitments are as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2019** | **2020** | **2021** | **2022** | **2023** | **2024 and thereafter** | **Total** |
| Operating leases1 | $ 331 | 107 | $ - | $ - | $ - | $ - | $ 438 |
| Other commitments | 21,530 | 8,086 | 1,117 | 15 | 16 | 20 | 30,784 |
| Base metal commitments | 16,621 | - | - | - | - | - | 16,621 |
| Capital commitments | 3,170 | - | - | - | - | - | 3,170 |
| Total | **$41,652** | **$8,193** | **$1,117** | **$ 15** | **$ 16** | **$ 20** | **$51,013** |

1 Operating leases include low value leases and leases with a term of 12 months or less.

Other commitments include firm contracts with suppliers for goods and services, excluding precious metals commitments and operating leases.

Base metal commitments are firm fixed-price purchase commitments which are entered into 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 has committed as at June 29, 2019 to spend approximately $3.2 million (December 31, 2018 - $2.2 million) in 2019 on capital projects.

In addition, 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 condensed consolidated financial statements. A $1.2 million provision for potential legal obligations is included in other provisions (Note 13) as at June 29, 2019 (December 31, 2018 - $0.9 million). The amount and timing of the settlement of the provision is uncertain.

There have been no other material changes to the Corporation’s commitments, contingencies and guarantees since December 31, 2018.

**25. RECLASSIFICATIONS**

In 2018, the Corporation modified the condensed consolidated statement of comprehensive income classification for certain amounts between marketing and sales expenses and administration expenses to more appropriately reflect their nature. Comparative amounts in these condensed consolidated financial statements were reclassified for consistency.

The following table shows the combined impact of these reclassifications:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 13 weeks ended | | | | | |
|  |  | | June 29, 2019 | |  | |
| *Increase (Decrease)* | As reported | | Reclassifications | | As reclassified | |
| Marketing and sales expenses | **$** | 9,022 | **$** | (125) | **$** | 8,897 |
| Administration expenses |  | 13,994 |  | 125 |  | 14,119 |
|  | 26 weeks ended | | | | | |
|  |  | | June 29, 2019 | |  | |
| *Increase (Decrease)* | As reported | | Reclassifications | | As reclassified | |
| Marketing and sales expenses | **$** | 17,767 | **$** | (428) | **$** | 17,339 |
| Administration expenses |  | 27,606 |  | 428 |  | 28,034 |

1. Financial Administration Act, R.S.C., 1985, c. F-11 [↑](#footnote-ref-1)