

October 24, 2005

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Our Matter Number: 1055762

Mr. Marc Brûlé
Chair of the Audit Committee of the Board of Directors
Royal Canadian Mint
320 Sussex Drive
Ottawa, Ontario K1A 0G8

Dear Mr. Brûlé:

Re: Governance Advice

You have asked us to review the provisions of the corporate governance system of the Royal Canadian Mint (“RCM”) relating to the reimbursement of expenses incurred by the Chief Executive Officer (the “CEO”).

The issue has arisen as a result of questions raised about expenses incurred by Mr. David Dingwall, the CEO of the RCM from March 2003 until September 2005. In addition to our engagement, the RCM has also engaged PricewaterhouseCoopers to determine whether the expenses of the CEO are in accordance with the RCM’s applicable policies concerning CEO expenses (the “Policy”) and are otherwise appropriate.

In order to render this opinion we have interviewed the following persons: Emmanuel Triassi – Chair of the Board of Directors (the “Board”), Marc Brûlé – Chair of the Board’s Audit Committee, Richard Neville – Vice-President, Finance and Administration and Chief Financial Officer, Marguerite Nadeau – Vice-President, General Counsel and Corporate Secretary (and currently RCM’s acting President), Craig Szelestowski, Vice-President, Human Resources and Lean Initiative, André Aubrey, Director of Internal Audit and Douglas Timmins, Assistant Auditor General, Office of the Auditor General. In addition, we have reviewed the documents set out in Appendix A.

Scope of Mandate:

In rendering this opinion, we have not made any judgment on the appropriateness of the Policy which is a matter of business judgment. We understand that the appropriateness of the expenses reimbursed will be addressed in PricewaterhouseCoopers’ review. The Policy has been approved by the RCM Board of Directors, which has an obligation to act in the best interests of the RCM. Accordingly, for purposes of expressing our opinion we have assumed that the Policy reflects best practices and is in the best interests of the RCM.

Furthermore, we have not conducted a review of the RCM's overall corporate governance practices, as our mandate is focused on the process surrounding the approval of the CEO's expenses. We do note, however, that the Office of the Auditor General conducts an annual audit and, in addition, in June of this year, as required by the Financial Administration Act, the Auditor General released a Special Examination Report with respect to the RCM. The Report found that the RCM's corporate governance practices were sound and noted that the Board has "taken appropriate actions to ensure that it has the resources and skill sets it needs to discharge its responsibilities, that it functions well, and that it is independent". In addition, their opinion states that "based on the criteria established for the examination, there is reasonable assurance that there are no significant deficiencies in the systems and practices we examined".

RCM's CEO Expense Approval Process:

Turning now to the CEO expense approval process, we note that RCM's corporate governance system requires the CEO to submit on a regular basis a statement of his expenses and receipts confirming the expenses to the RCM'S Chief Financial Officer ("CFO"). The CFO then reviews the expenses against the Policy and approves reimbursement if the expenses were incurred in accordance with the Policy. The Board and the Audit Committee do not have any direct role in the approval of the reimbursement of the expenses, but the Board does receive (amongst other things) at every board meeting a statement describing the CEO expenses reimbursed. We also note that, at each month end, every Board member receives from the Royal Canadian Mint a monthly "Overview of Financial Results" which contains the actual expenditures as compared to the budget from each corporate cost centre including the CEO's Office. Furthermore, pursuant to the RCM's Policy Manual, on an annual basis the Chair of the Audit Committee is required to review the expenses of all directors, including the CEO, and to report to the Audit Committee and the Board on the results of this review. You have reported to us that your review has not identified any discrepancies between the Policy and the CEO expenses reimbursed.

We also understand that the Board and the Audit Committee hold in camera meetings (i.e. without the CEO and other members of management present) during which concerns, if any, about expenses can be raised. Furthermore, we understand that the Audit Committee meets with the RCM's internal auditor on an in camera basis at which time the internal auditor is in a position to raise any concerns that he might have with respect to the process being followed with respect to the President's expenses. To this end, the minutes of an Audit committee meeting held on March 7, 2005 indicate that the internal auditor reported to the Audit Committee that his audit findings showed that the process governing the treatment of the CEO's expenses for 2004 was being fully respected, that, based on his review, all "expenses are in good standing order, as well as, having the

proper back-up documentation” and that “there were no discrepancies found”. Finally, you have advised that the tabling of the statement concerning the President’s expenses with the Board, together with the additional opportunities for discussion and validation described above, affords the Board and Audit Committee the opportunity to monitor the expenses incurred by the CEO and to determine their appropriateness and their relationship to the RCM’s business strategy. Our interviews and review of relevant documentation confirm that the Board and Audit Committee have regularly reviewed the CEO’s expenses.

Analysis:

(i) Private Sector Process:

Most private sector corporations do not have as developed a system for the approval of the CEO’s expenses as the RCM. Instead, private sector corporations routinely approve the CEO’s expense claims for reimbursement as they are submitted, reflecting the trust that the board must have in the CEO to incur expenses which are appropriate and are consistent with the corporation’s strategy. If the board of a private sector corporation reviewed and approved the detailed expenses incurred by the CEO the relationship between the board and the CEO could be seriously impaired by raising questions as to the confidence the board has in the CEO. In order to have some control over expenses, the board of most private sector corporations would approve a budget which would include a budget for the office of the CEO. The board would then receive periodic budget updates which would enable the board to track CEO expenses and intervene if necessary. If the board does not trust the CEO’s judgment in relation to expenses incurred, then the board has a larger question to address and that is whether the CEO is appropriate for the job.

(ii) RCM Process:

Because of the sensitive position of crown corporations in our economic system, the RCM has a more rigorous process for approving CEO expenses. The RCM process described above goes well beyond what one could expect to find in most private sector corporations.

A rigorous governance system for approving the expenses of any officer of a corporation would require that the expenses be submitted for approval to an individual who is capable of and is perceived to be capable of exercising independent judgment in the best interests of the company, that is to say, an individual over whom the officer does not have authority, such as the chair of the board, the chair of the audit committee or another director.

In the RCM's corporate governance system, the CEO does not have formal hiring and firing authority over the CFO. However, we understand that if the CEO recommended the hiring or firing of a particular officer, the Board would almost certainly accept the recommendation. The CEO, therefore, does have some authority over the CFO. We are nevertheless of the view that the CFO is in a position to make an objective judgment as to the compliance of the CEO's expenses with the RCM Policy and that the responsibility of the Board and Audit Committee to review the CEO expenses pursuant to the Policy provides an opportunity for further objective judgment as to compliance and the overall appropriateness of the expenses. In this instance, we also note that the RCM's CFO was previously the Deputy Comptroller General of Canada at the Treasury Board Secretariat and therefore someone who could be expected to have considerable experience with respect to whether expense claims were appropriate having regard to the Policy. We also note that the RCM attaches great importance to the quality of its governance and is continually engaged in a process designed to improve its governance system.

Conclusion:

It is therefore our view that the governance process that the RCM followed with respect to the approval and reimbursement of its CEO's expenses was sufficient to ensure that the corporation's funds were expended in a manner consistent with the Policy. In expressing this view, we draw your attention to the observation we have made below concerning how best to address concerns about how the RCM's governance system as it relates to the reimbursement of CEO expenses might be perceived.

An Observation:

We observe that notwithstanding the Board's authority over the CFO, the RCM's CEO has some authority and could be perceived as having some authority over the CFO. Having met and interviewed the RCM CFO, we are satisfied that if he had any questions concerning the CEO's expenses, he would not have hesitated to raise them in the first instance with the CEO and, if appropriate, with you as Chair of the Audit Committee or with another director. Nevertheless, it is our view that the current system governing the approval of expenses carries with it the risk that the CFO may not be, and may be perceived as not being, sufficiently independent from the CEO to exercise independent judgment – although we reiterate that in practice we have not seen any evidence of the absence of the exercise of independent judgment.

Accordingly, we would recommend that the RCM's system of governance be enhanced to require that the Chair of the Audit Committee, or another appropriate director, be given direct authority to approve CEO expenses. This function can be performed with the assistance of the CFO.

We are, of course, happy to discuss our views on these matters with you at your convenience.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Peter Dey".

Peter J. Dey
PJD:krs

Appendix A

Documents Reviewed

1. Financial Administration Act – Part X Crown Corporations
2. Royal Canadian Mint Act
3. RCM By-Law #1
4. RCM Policy Manual – June 2005
5. RCM Hospitality Policy – January 1, 2004
6. RCM Travel Policy – January 1, 2004 and 2005
7. Office of the Auditor General Special Examination Report – June 2, 2005
8. Extract from Minutes of December 3, 2003 Board Meeting
9. Extract from Minutes of December 7, 2004 Board Meeting
10. Extract from Minutes of March 7, 2005 Audit Committee Meeting
11. Extract from Minutes of March 18, 2005 Board Meeting