



Royal Canadian Mint

Special review and assessment of
unaccounted for differences

June 23, 2009

Executive Summary

Background

The Royal Canadian Mint (“RCM”) performs a count of stock containing precious metals twice annually. The stock consists of both precious metals owned by RCM and precious metals owned by RCM customers that are stored on the premises of RCM. The stock is comprised of raw materials, work in process and finished goods. The count for year-end financial reporting purposes is performed at the end of October and is updated to the fiscal year end, December 31 to reflect transactions during that period. Following completion of the count of stock containing precious metals, the precise amount of precious metal within each specific stock item is calculated. This amount is compared and reconciled to the stockkeeping records maintained by RCM.

We understand that in the precious metals refining industry, the reconciliation between the count and the stockkeeping records is a complex, multi-month process because of the different process streams, the different forms of the metal and the wide range and concentrations of byproducts. In order to account for all precious metals present at the count date, the count procedures also involve cleaning out all processing equipment, sweeps of the floor areas, and processing chlorination slag which results from the refining process.

A precious metals reconciliation (“reconciliation”) that was commenced by RCM on the count date (October 26, 2008) and recently completed (after recently receiving the final results of precious metal content of chlorination slag, sweeps, and other byproducts on hand) indicates that there is an unaccounted for difference of approximately 17,500 troy ounces of gold, or approximately 0.32% of RCM’s throughput for the 2008 fiscal year. This difference represents stockkeeping records that reflect a higher amount of gold that should be on hand than the physical amount of gold counted. In addition, RCM also identified an unaccounted for difference related to silver.

Deloitte Engagement, Findings and Conclusion – Unaccounted for Difference of Gold

Deloitte was retained to investigate if the unaccounted for differences in gold were the result of an accounting and/or transaction recording error, specifically:

- an accounting error in the preparation of the reconciliation,
- an accounting error in the physical stock count schedules created at the count date and in the months thereafter,
- an accounting error in the recordkeeping of transactions related to the receipts into the RCM, shipments out of RCM during the year, and movements within RCM, or
- a combination of the above.

We undertook a phased approach to the engagement due to the level of complexity. Our initial phase was a preliminary scoping exercise that was conducted between March 16, 2009 and April 10, 2009. Based on our results from the preliminary scoping exercise, we developed a risk-based approach and workplan of investigative procedures to undertake a detailed review. Our second phase of the engagement was this detailed review and was carried out during the period April 13, 2009 to June 16, 2009. Consistent with our risk-based approach, we did review a substantial number of RCM precious metals transactions, however, we did not test one hundred percent of all transactions.

Based on our procedures performed to date, the unaccounted for difference in gold does not appear to relate to an accounting error in the reconciliation process, an accounting error in the physical stock count

schedules, or an accounting error in the recordkeeping of transactions during the year. We have identified only minor errors which, taken together, cause virtually no net overall impact on the unaccounted for difference of gold.

Precious Metals Reconciliation

We understand that two of RCM's four business lines (Bullion and Refinery, and Numismatics) are entrusted with the handling of precious metals and, as such, their transactions impact the precious metals reconciliation. The precious metals reconciliation does not relate to the Canadian Circulation and Foreign Coins business lines of RCM.

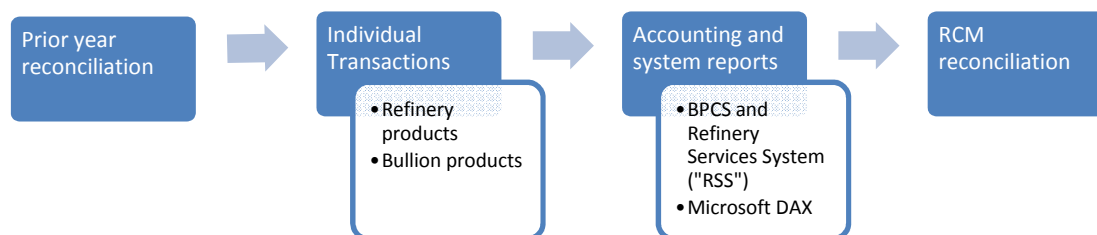
The precious metal reconciliation is comprised of the following components:

| Components of Precious Metals Reconciliation | | | | | |
|--|-----------|---------------------------------------|---------------------------|---------|---|
| Global precious metals reconciliation | A | Refinery metal stock | Refinery - Gold statement | G | Opening Metal Stock |
| | B | Production metal stock | | H | Metal additions |
| | C | <u>Third party ownership accounts</u> | | I | <u>Metal disbursed</u> |
| | D = A+B-C | RCM owned: calculated | | J=G+H-I | Calculated ending metal stock |
| | E | <u>RCM owned: bookkeeping records</u> | | K | <u>Physical ending metal stock</u> |
| | F=D-E | <i>Physical surplus (deficit)</i> | | =K-J | <i>Refinery, Physical Surplus (Deficit)</i> |

Most of the precious metals physically on hand are in the care and custody of RCM on behalf of third party customers, as recorded in ownership/pool accounts ("C", in table above). RCM has its own ownership of a small portion of the overall on hand metal. We did not identify any errors in the recording of third party customer's ownership account transactions. RCM has attributed the unaccounted for difference to their own ownership position.

Deloitte Procedures

Our workplan was holistic in that we examined in detail the reconciliation process, as well as the many components of the reconciliation. Each component of the reconciliation is derived from a series of individual transactions as compiled in the RCM accounting and reporting systems. Our examination, testing and analysis went from the macro level (reconciliation) to the micro level (individual transactions), as well as tracing through each interim step.



We have incorporated our risk-based approach such that a substantial amount of individual refinery transactions that impact the reconciliation have been examined and a sampling of bullion and numismatic transactions were reviewed. Using a complete data extraction of all refinery system transactions, we performed extensive analytics and generated detailed reports, such that we could test the accuracy and completeness of the non-customized reports generated by the refinery systems, and which were used by RCM in preparing their reconciliation.

The following procedures summarize the work completed:

Precious metals reconciliation - We reviewed the mathematical integrity of the RCM reconciliation schedules and all of the related sub-schedules, and performed a critical review of RCM schedules to ensure consistency of logic and approach. We reviewed the underlying accounting and transaction reports which were relied on by RCM to prepare the reconciliation.

Refinery physical count - We conducted a detailed review of the completeness and accuracy of the refinery stock count documentation and schedules, including both the gross weight of material on hand and the fine weight, after accounting for the precious metal content of each item. We reviewed and tested in detail the mathematical accuracy of the stock on hand schedules, as well as traced the schedules to all source documentation of gross and fine weights.

Prior year refinery physical count - We reviewed in detail the mathematical accuracy of the prior year on-hand stock schedules, applied the knowledge acquired with respect to the October 2008 count to assess the reasonableness of October 2007 count schedules, and conducted interviews with RCM representatives knowledgeable about the process followed for the prior year stock count.

Refinery – Metal received – RCM receives precious metal in either a rough form, from a mine or from scrap jewelers, or previously refined metal as a direct deposit. We reconciled the number of metal deposits from the manual receiving log to the customer receipts listing, where the deposits are recorded for accounting purposes. We tested in detail a sample of 91% of all rough deposits received and 87% of all direct deposits received by the RCM refinery. This includes a review of all transactions occurring since January 1, 2008. For the receipts reviewed, we verified both the gross weight, as well as the fine weight which is determined after applying the formulated assay rate, to the deposit. We did not verify or review the scientific assay procedures performed by RCM.

Refinery – Metal disbursed to customers – We tested in detail every shipment from the refinery that was recorded in the system. We examined the completeness of the recorded shipments by examining the shipping document/bill of lading registers used by RCM. We conducted additional detailed review of shipments disbursed to customers through RCM consignees.

Refinery – Metal disbursed through outside refiners – We tested in detail every settlement of byproducts processed offsite by third party refiners.

Refinery – Transfers to and from RCM production – The RCM refinery ships refined metal to its production facility which is used to produce gold bullion and numismatic products. Metal which is left over from this process is shipped back to the refinery from production to be re-refined. We reconciled shipments to and from production between the Refinery system and the Production system and reviewed in detail every reconciling item.

Production disbursements – We reviewed the completeness of recorded bullion sales and performed cut-off testing around current year and prior year physical count dates.

Ownership accounts – We tested in detail ownership accounts to determine that recorded transactions appropriately reflect the RCM recorded related physical transactions and movements of precious metals.

Other areas for consideration

As discussed previously, we undertook a phased approach to investigate whether the unaccounted for differences in gold were the result of an accounting and/or transaction recording error. Based on our procedures performed, we have not found an accounting or transaction recording error which would explain the unaccounted for difference between gold actually on hand and the amount of gold recorded as being on hand in RCM's records. Given the nature and extent of our work undertaken, we have identified three other areas for consideration to be examined and analyzed.

These additional areas include, but should not be limited to, the following:

1) Technical reviews

We understand that the RCM applies scientific processes and scientifically derived formulae to various aspects of refining, such as process losses. Certain of these processes/formulae are subject to benchmarking and/or third party studies. The reasonableness of these technical processes and formulae were outside the scope of our review. The RCM may wish to review and

update its benchmarking and/or third party studies regarding such technical processes and formulae.

2) *Accounting review*

Assessment of prior periods

Precious metal reconciliations have been performed by RCM twice annually in prior years. This reconciliation serves as an internal control to ensure potential precious metal surpluses and/or deficits are identified in a timely manner. A review of the transactions included in these prior reconciliations is outside the scope of our review. Although, in theory, revisiting prior period reconciliations could explain some of the difference, it would be difficult to complete such a review due to the passage of time, availability of supporting documentation, and the turnover of RCM staff who participated in recording the transactions and carrying out the stock counts.

3) *Security reviews*

Assessment of physical security controls

To identify theft opportunities of material on hand and material held offsite.

Assessment of systems security and assessment of potential inappropriate activities by both internal and/or external parties

To identify opportunities for accidental or deliberate manipulation of the manual accounting records or of the recordkeeping systems and data.

The objective of this phase of our assignment was to comment on non-deliberate, erroneous transactions or recordkeeping. We suggest a more in depth review be undertaken to assess potential inappropriate activity.

Table of contents

| | |
|--|----|
| Executive Summary | i |
| 1 Introduction | 3 |
| 1.1 Background | 3 |
| 1.2 Scope of Deloitte Engagement | 3 |
| 1.3 Summary results of procedures performed..... | 4 |
| 2 Precious Metals Reconciliation..... | 6 |
| 2.1 RCM business lines | 6 |
| 2.2 RCM accounting for precious metals | 6 |
| 2.3 Review of October 2008 precious metal reconciliations | 9 |
| 2.4 Review of October 2007 refinery reconciliation | 10 |
| 3 Mint Office and Refinery – Onsite..... | 12 |
| 3.1 Introduction..... | 12 |
| 3.2 Closing physical stocktake – October 26, 2008 | 13 |
| 3.3 Opening physical stocktake – October 27, 2007 | 24 |
| 3.4 Metal Received - Rough Deposits, Final Settlements..... | 24 |
| 3.5 Metal Received - Direct Deposits..... | 27 |
| 3.6 Metal Disbursed - Shipped to Customers | 28 |
| 3.7 Metal Received from and Shipped to Ottawa Production | 31 |
| 3.8 Other disbursements..... | 32 |
| 4 Mint Office and Refinery – Onsite Storage..... | 33 |
| 4.1 Introduction..... | 33 |
| 4.2 Opening and Closing physical stocktake – October 27, 2007 and October 26, 2008 | 34 |
| 4.3 Metal Transactions | 34 |
| 5 Mint Office and Refinery: Offsite..... | 35 |
| 5.1 Finished Goods Consignment Transactions | 35 |

| | | |
|-----|---|----|
| 5.2 | Byproducts - Offsite Refiner Transactions | 37 |
| 5.3 | Finished goods offsite display | 37 |
| 6 | Production Transactions | 39 |
| 6.1 | Closing physical stocktake – October 26, 2008 | 39 |
| 6.2 | Bullion transactions | 39 |
| 6.3 | Numismatics transactions | 40 |
| 7 | Pool Accounts | 42 |
| 7.1 | Introduction – Accounting for Refinery Transactions | 42 |
| 7.2 | Reconciliation of refinery physical transactions to pool account transactions | 43 |
| 7.3 | Introduction – Accounting for Production Transactions | 44 |
| 7.4 | Reconciliation of production physical transactions to pool account transactions | 45 |
| 7.5 | Confirmation of pool account balances | 46 |
| 7.6 | Mint Office - Pool Reconciliation | 47 |
| 8 | Restriction on use of report | 48 |

1 Introduction

1.1 Background

We understand that the Royal Canadian Mint (“RCM”) performs a twice-annual count of precious metals stock. The stock consists of both precious metals owned by RCM and precious metals owned by RCM customers that are stored on the premises of RCM. The stock count relating to the December 31, 2008 fiscal year-end of RCM was performed in October 2008 and updated/rolled-forward to reflect transactions occurring during November and December 2008. The count and related accounting reconciliation performed by RCM indicated that the total gold on hand was less than the total gold per the stockkeeping records by approximately 17,500 troy ounces.

We understand that the following work was completed by RCM prior to Deloitte’s engagement:

- a) Two precious metals stock counts have been performed, a full count in October 2008 and a count of the gold only, in January 2009.
- b) A number of RCM personnel have reviewed and re-examined the various components of the precious metals reconciliation between the stockkeeping counts and stockkeeping and accounting records.
- c) A recalculation of the reconciliations has been performed by RCM.

Subsequent to Deloitte’s retainer, RCM has completed a full physical precious metal stock count in March 2009, and is now conducting a reconciliation for the period October 2008 to March 2009. We understand that, based on the preliminary reconciliation results, the unaccounted for deficit identified in October 2008 has not been increased or decreased in this period, and it still appears to relate to the RCM refinery business.

1.2 Scope of Deloitte Engagement

1.2.1 Preliminary Assessment and Scoping by Deloitte

We performed an initial scoping exercise that included the following:

- a) Reviewed work undertaken by RCM to identify and investigate the unaccounted for difference.
- b) Reviewed professional reports previously procured by RCM related to stock counts.
- c) Met with both RCM personnel and industry experts retained by RCM to gain full understanding of operating and recordkeeping processes – including the daily operating transacting and accounting procedures, the stock counts and the precious metals reconciliation.
- d) Conducted a preliminary analysis of the stock reconciliation to understand its methodology and mechanics, and perform preliminary proofs of its accuracy.

Based on this scoping exercise, we developed a risk-based approach workplan of investigative steps to undertake in the detailed review.

1.2.2 Deloitte understanding and approach to detailed review

We understand that the unaccounted for difference in precious metals at October 2008 may have resulted from:

- a) an actual physical loss, displacement or other deficiency of precious metals at the count date,
- b) an accounting error in the reconciliation process,

- c) an accounting error in the physical stock count schedules,
- d) an accounting error in the recordkeeping of transactions in the year, or
- e) a combination of the above.

RCM has asked us to carry out the steps proposed in our workplan to assess and investigate if the unaccounted for differences in gold and silver are the result of an accounting and/or transaction recording error (items b, c, or d) that could be corrected by RCM. As such, we have conducted a detailed review of the RCM-prepared precious metals reconciliation and of the accounting records for underlying amounts which have been used by RCM to prepare the precious metals reconciliation. Our process has included a review of transactions that result from:

- a) Physical movements of precious metals in to and out of RCM and related record-keeping,
- b) Physical movements of precious metals within the RCM - between the Refinery and Production – and related record-keeping,
- c) Physical movements of precious metals within the Refinery, and
- d) The related impact on the customers' ownership positions as accounted for in customer accounts.

We conducted walkthroughs of many of RCM's business processes which affect the accounting of precious metals, in order to obtain an understanding of the process and to identify the accounting records that are created in support of the process and related transactions.

We have reviewed the procedures taken by RCM during the October 2007 and October 2008 stock counts of precious metals and have reviewed the RCM's count schedules with reference to the accounting records created during the stockcount.

The specific testing performed on each of these areas is discussed in the following report sections.

1.2.3 Our Engagement Team

Our engagement team was comprised of qualified professionals identified by Deloitte to meet RCM's specific needs for this project. A team of twelve Deloitte professionals from various practice areas and specializations conducted the specific engagement procedures spanning the period March 16, 2009 to this report date.

1.3 Summary results of procedures performed

We were asked to assess and investigate if the unaccounted for differences in gold may be an accounting error in the reconciliation process, an accounting error in the physical stock count schedules, or an accounting error in the recordkeeping of transactions in the year.

During the course of our detailed review, we have identified only minor differences in each of these areas. The net overall impact to the global precious metal reconciliation was to decrease the unaccounted for difference by 23.72 troy ounces, and to increase the unaccounted for refinery difference by 113.53 troy ounces. Based on the procedures performed, we did not identify any other amounts that required adjustment in the metal reconciliation.

During the period of our engagement, RCM has finalized various processes that were in progress at the time of our retainer (for example the processing of various byproduct materials).

The following table summarizes the calculation of the unaccounted for difference in gold that we were retained to examine as well as Deloitte's identified adjustments.

| October 26, 2008 RCM Gold Reconciliation | | |
|--|--|---|
| | Deloitte identified adjustments | Total calculation, as at report date |
| | (troy ounces) | (troy ounces) |
| Refinery - Gold statement | Opening Metal Stock | 525,466.81 |
| | Metal additions | 5,322,366.78 |
| | Metal disbursed | (5,347,976.65) |
| | Other adjustments | (1,106.36) |
| | Calculated ending metal stock | 498,750.58 |
| | Ending metal stock | 482,256.49 |
| | <i>Apparent Physical Surplus (Deficit)</i> | 23.72 |
| Global precious metals reconciliation | Refinery metal stock | 482,256.49 |
| | Production metal stock | 259,813.54 |
| | Third party pool balances | (757,726.06) |
| | Bullion sales: shipped vs booked | 3,536.00 |
| | RCM owned: calculated | (12,120.03) |
| | RCM owned: Pre-final accrual | 5,394.17 |
| | <i>Apparent Physical Surplus (Deficit)</i> | (113.53) |

Each of the Deloitte identified adjustments were identified in the course of performing the procedures as described on each balance in the related report sections that follow.

2 Precious Metals Reconciliation

2.1 RCM business lines

We understand that two of RCM's four business lines are invested with the handling of precious metals, and as such, their transactions impact the precious metals reconciliation.

The Royal Canadian Mint is a commercial Crown corporation and one of the world's foremost producers of circulation, numismatic and bullion coins for the domestic and international marketplace. It is also one of the world's largest refiners of gold and silver.

Bullion and Refinery

The Mint produces and markets a family of gold and silver bullion coins as well as high purity precious metals products such as granules for industrial applications. It operates a refinery that provides customers with a range of services from gold and silver refining to assaying and secure storage.

Numismatics

The Mint's numismatic coins are renowned for their beauty and craftsmanship. Made primarily of precious metals, the coins are enhanced with special effects such as holograms. Numismatic products include uncirculated, specimen and proof circulation coins as well as products for sale to gift-givers.

In addition, RCM offers storage and assay services to customers, which results in precious metals material being held by RCM and shipped between RCM and their customers.

The precious metals reconciliation does not relate, in any way, to the Canadian Circulation and Foreign Coins business lines of RCM.

2.2 RCM accounting for precious metals

Global precious metals reconciliation

Each unit of precious metals in the care and custody of RCM is accounted for in two ways:

- i. physical - where is it located, and
- ii. ownership - who does it belong to

Theoretically, at any point in time, there is a balance between the physical and the ownership.

Ownership accounts are called pool accounts. A pool account is a precious metal account held with RCM where the account holder's claim is for unallocated precious metal. These accounts denominated in troy ounces represent customer owned gold that RCM is holding in safekeeping for its customers. Each customer has their own pool account.

RCM has its own ownership position / pool account for its interest in the unallocated material on hand which is acquired by way open market purchases of precious metals and from retentions (a fee collected from customers by RCM in the form of precious metals).

There are a limited number of ways that physical movements of precious metals occur into and out of the RCM stock. Each physical movement into and out of the care and custody of RCM has a related impact on an ownership account.

Physical material on hand may be lost in refining/processing. Process losses incurred during processing lowers the RCM ownership account, but not the customer pool accounts. We understand that historically process losses at RCM are very small, and are estimated in the RCM refining process to be 0.035% of material refined (or 3.5 parts per 10,000), based on engineering reports previously commissioned by RCM. Based on an estimated 3 million troy ounces refined process loss would be only 1,050 troy ounces.

Every six months, RCM reconciles the physical stock on hand to the ownership accounts. This process is called the “**global precious metals reconciliation**”. Annually, any net difference at the end of the reconciliation process is attributed and booked to an RCM ownership/pool account.

The following table summarizes the components of the global precious metals reconciliation as at October 26, 2008, and the related values of each.

| October 2008 Global Precious Metals Reconciliation - Gold | |
|--|---|
| | Calculation as at Reporting Date |
| | (troy ounces) |
| RCM Ownership: Calculated | |
| Precious Metal per Physical Count | |
| Refinery Operations, Mint Office & Assay | 1,042,623.51 |
| Ottawa Production - Business Lines | 259,813.54 |
| Less: Allocated Storage | <u>(560,367.02)</u> |
| Physical Count: Net Of Storage | 742,070.03 |
| Deduct: Third party pool balances & adjustments | <u>754,190.06</u> |
| RCM Owned: Calculated | (12,120.03) |
| RCM Owned: System | <u>5,394.17</u> |
| Apparent Physical Surplus (Deficit) | <u><u>(17,514.20)</u></u> |

The unaccounted for difference represents the difference between RCM's calculated ownership position and the ownership position reflected in their enterprise resource planning (ERP) and general ledger system.

RCM has asked us to assess and investigate if the unaccounted for differences in gold are the result of an accounting and/or transaction recording error that could be corrected by RCM.

Components of global precious metals reconciliation

Physical components of reconciliation

Refinery, Operations, Mint Office and Assay Physical Count includes the precious metal content of:

- refinery work in process items, including metal onsite, byproducts onsite, byproducts offsite and byproducts in process at outside refiners
- finished goods onsite in the RCM Mint office and finished goods consigned offsite or on loan offsite

- assay samples

The refinery, mint office and assay operate their business on a modified Business Planning and Control System (BPCS) ERP system. The modified system is known internally as RSS, Refinery Services System.

A separate reconciliation is performed on the Refinery, Operations, Mint Office and Assay controlled metals, as further described below. For the unaccounted for difference that we have been asked to investigate, there is a significant relationship between the unaccounted for difference of 17,514.21 troy ounces (above) and the unaccounted for difference of 16,494.09 troy ounces in the refinery statement. Therefore, if the reason for the refinery difference can be identified and explained, then the unaccounted for global precious metals reconciliation difference would also be significantly reduced, in an equal amount.

Allocated storage count includes fine metal stored by RCM for third parties. The material is specifically identified and is segregated within the RCM vaults from unallocated material. The unaccounted for difference does not relate to allocated storage precious metals.

Production Physical Count includes bullion work in progress and numismatic work in progress and finished goods.

The Production business operates on a Microsoft DAX ERP system, which was implemented in the summer of 2007.

Logical components of reconciliation

Third party pool balances and adjustments represent:

- the ownership claims on unallocated precious metal under the custodial control of RCM, and
- the ownership claims of third parties who have leased metal to RCM for use in RCM's production.

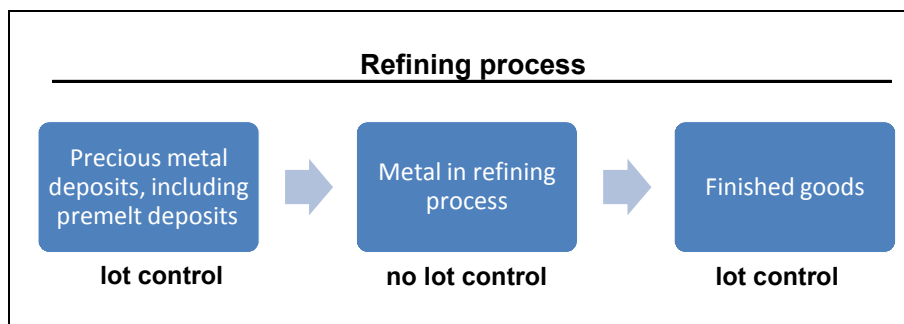
The pool account balances are maintained in the RSS system.

Refinery gold statement – Physical to Calculated

We understand the following:

- The challenge in tracking precious metal through the refining operations is that for exact tracking, it would be necessary to assay every input and every output from every department.
- For practical reasons, this tracking is not done in practice at RCM. RCM representatives identified that this is industry standard.

Further, we understand that lot control of physical material in the refinery exists for material as it is received into the process and for material that is converted to finished goods. Work in process in between these stages is not subject to lot control physically or in the system, as set out below. Therefore, the precious metal content on hand within the entire system can only be verified by a full count of all material, which historically has been done twice annually by RCM, in April and October.



After each April and October physical count, the Refinery gold statement is used to reconcile the precious metal stock counted with a calculated ending precious metal stock, based on the opening stock and the recorded transactions. The October 2008 statement is summarized as follows:

| October 2008 Refinery - Gold Statement | |
|---|--|
| | Calculation as at Reporting Date (troy ounces) |
| Physical: Opening Metal Stock | 525,466.81 |
| Add: Metal Received | 5,322,366.78 |
| Deduct: Metal Disbursed | (5,347,976.65) |
| Other adjustments | (1,106.36) |
| Calculated Ending Metal Stock | 498,750.58 |
| Physical: Ending Metal Stock | 482,256.49 |
| Physical to Calculated - Apparent Physical Deficit | (16,494.09) |

As previously noted, if the reason for the refinery difference can be identified and explained, then the unaccounted for global precious metals reconciliation difference would also be reduced, in an equal amount. Therefore, Deloitte's review has incorporated a risk-based approach such that a substantial amount of refinery transactions have been examined.

Location of metal stock

The physical metal stock included in the refinery statement includes material in the custodial care and control of RCM at their premises, material held offsite on consignment at customer locations, and held offsite at outside refiners.

The refinery gold statement does not include metal transferred between these locations (onsite, outside refiner, consignment) as all three are included in the physical stock. Only metal transferred to customers which increase or decrease pool account ownership are included on the refinery statement.

2.3 Review of October 2008 precious metal reconciliations

Introduction

The global precious metal reconciliation and refinery gold statement are both prepared by RCM using a series of internally created Excel spreadsheets. We understand that numerous inputs to the schedules are manually entered, based on information available on accounting reports generated from the RSS and DAX systems. As well, the top-level reconciliation schedules (such as the global precious metals

reconciliation) include numerous formulas and links to other Excel spreadsheets containing additional detailed calculations and data.

Deloitte Procedures

1. Tested the mathematical integrity of each reconciliation schedule and all of the related sub-schedules.
 - a. Testing integrity of summations, multiplications, divisions or other formula based cell references.
 - b. Determined whether all amounts were linked to the appropriate source.
 - c. Traced manually input amounts to source reports or schedules external to the Excel system.
2. Performed a critical review of logic and assumptions inherent in RCM calculations and inputs, based on our understanding of each transaction, as more fully described in the following report sections.
3. Performed a critical review of RCM schedules, in comparison with the prior year October 2007 reconciliation to ensure consistency of logic and approach.

Results of Procedures

We identified one mathematical error that resulted in an understatement of metal disbursed in the amount of 71.48 troy ounces. The unaccounted for difference has been reduced for this amount.

As a further output from the above procedures, Deloitte designed or modified the specific workplan procedures to be performed on each component of the reconciliation in order to test the accuracy, existence and completeness of reconciliation inputs, reconciling items, and other unusual transactions. These specific procedures and the results thereof, are described in each of the following report sections.

Parallel reporting schedules

Throughout the entire course of our retainer, at our request, RCM finance, operations and IT personnel provided us with numerous data dumps and flat files that were extracted from the system by RCM.

Using a complete data dump of all RSS and BPCS transactions, we were able to perform extensive analytics, filters, sorts and create detailed reports, such that we could test the accuracy and completeness of the (non-customized) reports generated by the RSS systems, and used by RCM in preparing their reconciliation.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

2.4 Review of October 2007 refinery reconciliation

Deloitte Procedures

1. Tested the mathematical integrity of refinery gold statement and all of the related sub-schedules.

- a. Tested integrity of summations, multiplications, divisions or other formula based cell references.
- b. Confirmed that all amounts were linked to the appropriate source.

We have not traced the reconciliation values to source reports or source documentation maintained by RCM.

2. Performed a critical review of RCM schedules, in comparison with the current year October 2008 reconciliation to ensure consistency of logic and approach.

Results of Procedures

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

We did not attend or observe the prior year stock counts, and we have not detail tested each component of the prior year reconciliation in the same manner and extent as the components in the October 2008 reconciliation.

3 Mint Office and Refinery – Onsite

3.1 Introduction

The refinery stock balances onsite are discussed in this report section 3. Offsite stock is discussed in report section 5 along with the related transactions between RCM the offsite location and the customers.

| Gold stock | Report Ref. | Closing Stock Oct 26, 2008 | Opening Stock Oct 27, 2007 |
|--|------------------------|---------------------------------------|---------------------------------------|
| | | (troy ounces) | (troy ounces) |
| <i>Metal Onsite</i> | | | |
| <i>Refinery products onsite</i> | | | |
| Gold Premelt Deposits | 3.2.1.1 | 109,768.26 | 86,961.98 |
| Gold content in Silver Premelt Deposits | 3.2.1.1 | 32,046.67 | 983.62 |
| Work in Process | | | |
| Anodes | 3.2.1.2 | 156,990.82 | 140,451.93 |
| Silver Sand | 3.2.1.3 | 5,695.44 | 2,483.62 |
| TBRC Bars | 3.2.1.4 | 633.78 | 2,230.53 |
| AG/CU Chloride Mould | 3.2.1.5 | 40,892.74 | 11,331.49 |
| Other | 3.2.1.6 | 28,055.40 | 112,157.54 |
| Required for Processing | 3.2.1.7 | 15,338.29 | 12,595.03 |
| Rough Deposits | 3.2.1.8 | 2,288.18 | 1,841.61 |
| <i>Subtotal</i> | | <u>391,709.58</u> | <u>371,037.35</u> |
| <i>Byproducts onsite</i> | 3.2.2 | 5,998.09 | 11,116.95 |
| <i>Mint Office Finished goods onsite</i> | 3.2.3 | 55,312.24 | 105,906.60 |
| <i>Assay Department</i> | 3.2.4 | 2,314.61 | 3,989.00 |
| Total Metal Onsite | | 455,334.52 | 492,049.90 |
| <i>Metal Offsite</i> | | | |
| <i>Byproducts offsite</i> | 5.2 | 6,673.56 | 15,866.59 |
| <i>Finished goods at consignment</i> | 5.1 | 16,593.45 | 17,550.32 |
| <i>Finished goods offsite display</i> | 5.3 | 3,646.01 | - |
| Total Metal Offsite | | 26,913.02 | 33,416.91 |
| Total Refinery Metal Stock | | <u>482,247.54</u> | <u>525,466.81</u> |

3.2 Closing physical stocktake – October 26, 2008

Deloitte was not retained at the time of the October count. We did not attend or observe the count procedures.

3.2.1 Refinery

3.2.1.1 Gold and Silver Premelt Deposits

Introduction

We understand the following:

- Gold and Silver pre-melt deposits are rough deposits that have been transferred to the pre-melt area to be melted at high temperatures to achieve a homogenous material suitable for obtaining an assay sample. Once an assay sample is obtained, the pre-melt deposits are poured into bar form (pre-melt Deposit), cooled and transferred to the Refinery for refining.
- Pre-melt deposits represent receipts of gold and silver from customers. These deposits are assigned lot numbers when they are received by RCM. Lot numbers remain assigned to the gold until assay results are received, the gold is credited to the depositors account and the gold is melted and formed into anodes.
- Pre-melt deposits are counted strictly for existence at year end. Due to the fact that these deposits have yet to be processed, they still contain lot numbers for identification purposes. The inventory count tag does not contain the lot number, rather this is recorded at the time of stocktake. The weight and fineness are then taken from the Master Deposit Listing based on the recorded lot number and recorded at year end.
- The majority of the pre-melt silver bars were not counted using tags at the October 26, 2008 count. Instead, the RCM developed a map of the location of the silver premelt bars. Based on the layout of the map, the lots as located, were recorded on the spreadsheet. The lot numbers were then transferred to the final stock listing and the weights and assay rates were imported from the Deposit Master Listing based on the lot numbers recorded at stocktake.
- The assay rates from the Deposit Master Listing are taken directly from the Fire Assay System.

Deloitte Procedures:

1. Reviewed final stock listing for formula accuracy
2. Compared all Count Tags used to count pre-melt deposits to the information entered in the final stock listing.
3. For each deposit, compared the weight and assay in the final stock listing to the Deposit Master Listing.

Results of Procedures:

Based on the procedures performed, we noted that due to differences between the assay reports as compared to the final inventory listing, gold is overstated by 0.908 troy ounces. We did not identify any other amounts that required adjustment in the metal reconciliation.

3.2.1.2 Work in Process – Anodes

Introduction

We understand the following:

- Anodes are a form of approximately 95% pure metal that are used during the electrolysis stage of the refining process.
- Anodes were counted on either one of two days, being Wednesday, October 22, 2008 or Friday, October 24, 2008. This was done to minimize the downtime of the electrolysis portion of the refining process. Anodes on hand were counted on the Wednesday at which point they were input into the electrolysis process (which was not subsequently counted). As additional anodes were received in the electrolysis room during Thursday/Friday, they were segregated and counted separately on Friday.
- The anodes counted and weighed on Wednesday were not recorded on count tags. The weight of each anode counted was recorded on an RCM prepared spreadsheet (“anode count sheet”).
- The anodes counted and weighed on Friday were recorded on count tags.

Deloitte procedures:

1. Reconciled the gross weights recorded on the count tags (Friday count) to the final stock count spreadsheet.
2. Reconciled the gross weights recorded on the anode count sheet (Wednesday count) to the final stock count spreadsheet.
3. Obtained the final assay reports for each of the counted anodes and confirmed that the assay result was accurately applied to each anode.

Results of procedures:

Based on the procedures performed, we noted that due to differences in the assay reports as compared to the final stock listing, gold is understated by 7.520 troy ounces. We did not identify any other amounts that required adjustment in the metal reconciliation.

3.2.1.3 Work in Process – Silver Sand

Introduction

We understand the following:

- Silver Sand is a byproduct from the Hydromet process that results after Slag from the Chlorination process is further refined. The gold fineness of silver sand is significantly less than that of the slag consumed in Hydromet.
- Silver Sand may be shipped offsite by RCM for further refining or it may be processed by the top-blown rotary converter (“TBRC”) into bars/silver anodes internally within RCM for use in the silver refinery. RCM manually maintains a worksheet “Trial Log Sheet” that tracks which barrels of silver sand that are used to make up the corresponding TBRC bars.
- Silver Sand is a homogenous byproduct and therefore the assay results are more representative of the gold content than an assay sample from the slag byproduct. As such, an accurate assay of silver sand’s precious metal fineness can be determined prior to processing it further.

- When silver sand is barreled up a sample is taken to be used for assay purposes. At the year end stocktake, each barrel is counted for existence. The count sheet used is from the schedule that is maintained as the sand is barreled.
- For silver sand barrels processed internally by RCM, the material may be accounted for on the stock count spreadsheet as TBRC bars if it was refined prior to being assayed.

Deloitte procedures:

1. Reconciled the gross weight of each silver sand barrel recorded on the count sheet to the final stock count spreadsheet (as either silver sand or as TBRC bars).
2. Verified whether silver sand barrels were recorded on the stock count spreadsheet as either one of silver sand or TBRC bars, and not both.
3. Obtained the final assay reports for each of the counted barrels and confirmed that the assay result was accurately applied to each barrel.

Results of procedures:

The final stock count spreadsheet was overstated by 44.830 troy ounces of gold due to one silver sand barrel HYD191 which was used to produce TBRC bar ETB78 and both were recorded on the stock count spreadsheet.

The final stock count spreadsheet was understated by 80.419 troy ounces of gold due to the exclusion of silver sand contained on the count sheet but not transferred to the final stock count spreadsheet.

The net effect of the two errors noted above is that the physical gold on hand is understated by 35.589 troy ounces.

3.2.1.4 Work in Process – TBRC (Top Blown Rotary Converter) Bars

Introduction

We understand the following:

- TBRC bars are created upon melting down the silver sand in the top blown rotary converter and pouring the melted product into a bar form.
- At stocktake date, these bars were counted using count tags. Lot numbers were recorded on the tags and the bars were counted for existence.
- Using the lot numbers recorded from the count, weights were taken from the “Trial Log Sheet” and populated into the final stock listing.
- Using the Lot numbers recorded from the count, assay rates were taken from the “ETB-Assay Results – XRF” worksheet as prepared by the Assay Department and populated into the final stock listing.

Deloitte Procedures:

1. Reviewed the final stock listing spreadsheet, the Trial Log Spreadsheet and the ETB-Assay Results XRF spreadsheet for formula accuracy.
2. Reviewed the count tags used and compared the lot numbers recorded on the tags to the lot numbers recorded in the final stock listing spreadsheet.

3. Compared the weights as recorded in the final stock listing spreadsheet to the Trial Log Sheet.
4. Compared the assay rates as recorded in the final stock listing spreadsheet to the ETB-Assay Results XRF spreadsheet.

Results of Procedures:

Based on the procedures performed, we noted that due to differences in assay rates between the final stock listing and the assay results, gold is understated by 12.185 troy ounces. We did not identify any other amounts that required adjustment in the metal reconciliation.

3.2.1.5 Work in Process – AG/CU Chloride Moulds (“Slag”)

Introduction

We understand the following:

- AG/Cu Chloride Moulds (“Slag”) are a byproduct from early-stage refining processes. Slag is a heterogeneous byproduct and therefore assay samples are not reliable as a fair representation of the precious metal content throughout the entire barrel.
- Slag can be further refined internally at RCM or externally, by outside refiners. Prior to October 2008, a backlog of slag onsite developed, as it was not getting processed internally. It was determined by RCM that the levels of slag on hand were in excess of the RCM’s processing capacity and that it should be shipped to an offsite refiner for processing. The first shipment of slag was made on November 5, 2008.
- For the October 2008 stocktake, the RCM initially used an average assay rate of 1.67% of gold for each of the barrels on hand. This was higher than the rate used for previous stocktake estimates of 1.465%. The adjustment to increase the rate was based on the fact that more recent settlements of the slag shipped offsite for refining were yielding assay rates higher than 1.465%, indicating that the slag on hand was richer in gold than on previous stocktake dates.
- According to the RCM as of the October 2008 stocktake date there was approximately 68 tonnes of slag on hand, approximately 20 tonnes of which was still on hand from the October 2007 count date. Of those 68 tonnes, 49 tonnes were shipped to offsite refiners for processing and the remaining 19 tonnes were processed at the RCM. As of February 3, 2009 the last of the 49 tonnes were shipped to the outside refiner.
- As of this report date, all of the 49 tonnes that were shipped offsite have been processed and the gold content within the slag has now been settled¹. The weighted average assay for these shipments is 1.865%. RCM has applied this rate to the remaining 18.986 tonnes processed internally by RCM. During this period, RCM did not physically calculate the gold content on the slag processed in house.

Deloitte Procedures

1. Reviewed the final stock spreadsheet for formula accuracy.

¹ We understand that three lots are pending settlement, subject to RCM obtaining umpired results of fineness.

2. For Barrels of slag barreled in 2008, the weights as recorded in the final stock listing were compared to the weights recorded on the “Drum Weight Logs” used to record the weight of the slag when barreled.
3. For Barrels that were on hand in 2007, the Drum Weight Logs were not available, as such the weights recorded in 2008 were compared to the closing stock weights recorded as of the October 2007 count date.
4. Reviewed the supporting documentation for the shipments of slag made from November 2008 to February 3, 2009.
5. Reviewed the settlement reports received from the outside refiner with respect to the shipments and compared them to the spreadsheet prepared by the RCM to calculate the weighted average Assay rate.
6. Reviewed the “Weighted Avg for Slag Results to Date 20090601” spreadsheet for formula accuracy.

Results of Procedures

Two errors were noted when we compared the weights recorded in the final stock listing spreadsheet to the weights as recorded on the on Drum Weight Logs. They are as follows:

- i) 2008 - Barrel # 62: the weight recorded in the final stock listing was 346.40 kg, however the weight according to the Drum Weight Log was 246.40. This barrel cannot be traced to a corresponding shipment and resulting assay rate. As such this barrel is part of the remaining 18.986 tonnes of slag for which the weighted average assay rate was applied and therefore represents an overstatement of 59.96 troy ounces of gold.
- ii) 2008 – Barrel #72: the weight recorded in the final stock listing was 385 kg however the weight according to the Drum Weight Log was 285 kg. This barrel can be traced to a corresponding shipment and resulting assay rate. As such this barrel is not part of the remaining 18.986 tonnes of slag for which the weighted average assay rate was applied and therefore does not result in an error.

The weighted average of all barrels/lots processed offsite was 1.865%. The following table demonstrates the impact on the total gold in troy ounces using a range of assay rates:

| Calculation of fine gold in slag processed internally by RCM | | | |
|---|---|---|--|
| | October 2007 estimated assay | Initial October 2008 assay estimated assay | Weighted average assay (of externally processed slag) |
| Internally Processed Slag (tonnes) | 18,986 | 18,986 | 18,986 |
| Assay | 1.465% | 1.670% | 1.865% |
| Gold Content in Troy Ounces | 8,942.56 | 10,193.91 | 11,384.22 |

We recalculated that the weighted average formula was accurately derived and applied to the slag material processed internally. To the extent that the internally processed slag may have had a different fineness than the externally processed slag, the effect of a 0.10% change in the applied assay rate on 18.986 tonnes would be approximately 610 troy ounces of gold.

3.2.1.6 Work in Process – Other

Introduction:

We understand the following:

- The other items included in work in process include:
 - Scarfed Bars - Bars prepared for use by the production facility in the manufacture of bullion,
 - Rejected material,
 - Sweeps – Materials collected from floor sweepings, crushed crucibles etc. that are to be processed to extract precious metals,
 - Spent Electrolyte – Electrolyte that has been used during the electrolysis and removed from the tanks. This material is typically processed internally and has a relatively high gold content, and
 - Hard to treat metal scraps from previous year.
- Those items that were produced during the year were weighed and counted using count tags on October 24, 2008.
- Those items that remained on hand from previous years were counted for existence. The weights and fineness factors from previous years were carried forward.

Deloitte Procedures:

1. Reviewed the final stock spreadsheet for formula accuracy.
2. Reconciled all count tags used to the final stock spreadsheet.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

3.2.1.7 Required for Processing

Introduction

We understand the following:

- Items included in this balance are as follows:
 - i) The fresh electrolyte not yet used to process Anodes - 12,556.21564 troy ounces of gold,
 - ii) The equipment used to perform the electrolysis process such as the bars and hooks that hold the anodes – 2,722.25775 troy ounces of gold, and
 - iii) XRF Standards used for calibration of machinery – 59.8211 troy ounces of gold.
- The Electrolyte was counted on the Wednesday before the stock count. Tags were not used for these items however they were recorded on the Anode Count Sheet.

- XRF Standards were counted for existence only. As these are standards for calibration they are the same weights and assays as previous years.

Deloitte Procedures:

1. Reviewed the final stock spreadsheet and Anode Count Sheet for formula accuracy
2. Reconciled the “Anode Count Sheet” to the final stock spreadsheet
3. Reconciled used count tags to the final stock spreadsheet. Compared weights, amounts, item details between the tags and the Final stock spreadsheet to identify any variances.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

3.2.1.8 Rough Deposits

Introduction:

We understand the following:

- Rough deposits are material delivered to the RCM from customers for refining or casting. Rough deposits can be received directly from mines or as scrap metal such as coins or jewelry.
- As rough deposits are received into the RCM, they are assigned a Lot number. For purposes of the October 2008 count, the cut-off date for rough deposit receipts was Monday October 20, 2008 and every receipt thereafter was considered to have been received after cut-off and not included in this physical stock count or related ownership account.

Deloitte Procedures:

1. Reviewed the final stock spreadsheet for formula accuracy.
2. Reconciled all rough deposit count tags used to the final stock spreadsheet.
3. Reviewed the rough deposit receipts directly before and after the count date and reconciled whether they were properly included or excluded from the final stock listing.
4. Reviewed rough deposits received after the cut-off date that had been already processed through the pre-melt and compared them to the final stock spreadsheet to determine if they had been excluded.
5. Reviewed rough deposits received prior to the cut-off date that had been already processed through the pre-melt as of the count date of October 24, 2008 and compared them to the final stock spreadsheet to determine that they were not recorded both as a rough deposit and a pre-melt deposit.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

3.2.2 Byproducts Onsite

Introduction:

We understand the following:

- Byproducts represent a secondary metal or mineral product of economic value recovered in the refinery process. Byproducts include items such as sludge, jewelry waste, floor sweeps and crushed crucibles. There are two stages for which byproducts are classified:
 - i. Onsite – These are byproducts that as of the stocktake day remained onsite at RCM but had been prepared for shipment to outside refiners.
 - ii. Offsite – These are byproducts that as of the stocktake day had been shipped offsite to be refined for precious metals or had been refined and the resulting precious metals were available for settlement. See Section 5.2 Offsite Refiner Transactions for procedures performed on this balance.
- The precious metal content for byproducts is based on either:
 - i. The Assay rate as determined by the outside refiner on the condition that the RCM agrees with the rate determined. The RCM, prior to shipment offsite prepares its own assay sample for comparison purposes. If the assay rate by the outside refiner is within a certain limit (varies by refiner) the RCM accepts the assay rate and precious metal content is settled based on this rate.
 - ii. The Assay rate as determined by an Umpire. If the assay rate as received from the outside refiner is not within an acceptable range of RCM's assay rate, a sample of the product is sent to a third party for umpire. It is this rate that is the basis for which metal content is settled.
- Once shipped offsite and refined, the precious metals remain at the offsite refinery location. The precious metals are then made available to the RCM for settlement. With respect to offsite byproducts, settlements refers to two different scenarios:
 - i. RCM will contact the offsite refiner and request settlement based on the balance of precious metals available. RCM and the refiner will agree on a value date at which time the refiner obtains ownership of the metal and in return will transfer funds equivalent to the agreed upon rate to RCM.
 - ii. If the refiner holds a pool account at RCM, RCM and the Refiner may perform what is referred to as a precious metals swap. That is, RCM will decrease the refiner's pool account by an amount equivalent to the amount of precious metals resulting from the refined byproduct.
- For those byproducts that had yet to be refined (both onsite and a portion of offsite), the gold content was estimated for purposes of the final stock balance based on RCM's assay sample.
- As products were refined and the actual gold content was determined (based on either the refiners assay rate or an umpired assay rate) the stock count sheet was updated to reflect actual metal content versus estimated metal content.

Deloitte Procedures:

1. Reviewed the tracking spreadsheet prepared for onsite byproducts at stocktake for formula accuracy.
2. Compared the amounts on the tracking spreadsheet to the final balance included in the global reconciliation.

3. For those byproducts onsite at the stocktake date that had been subsequently shipped to outside refiners, reviewed documentation from the outside refiner to determine the following:
 - o That the weights recorded at the stocktake date were comparable to the weights received by the outside refiner.
 - o That the estimated gold content as at the stocktake date based on RCM's assay were similar to the estimated gold content as determined by the outside refiner.

Results of Procedures:

The review of the tracking spreadsheet did not identify any errors in the formulas and the amounts on the tracking spreadsheet agreed to the final amounts presented in the reconciliation.

As at the stocktake date, there were 110 barrels of byproduct onsite with an estimated gold content of 5,998.088 troy ounces, as follows:

| Byproduct | # of Barrels | RCM Estimated Gold (t. oz.) | Barrels Shipped to Date | Settled Gold Content | RCM Remaining Estimate |
|-------------------------|---------------------|------------------------------------|--------------------------------|-----------------------------|-------------------------------|
| Sweeps | 17 | 762.510 | 14 | | 762.510 |
| Dust Collector | 5 | 152.919 | 5 | | 152.919 |
| Silver Chlorides | 13 | 1,259.468 | 13 | | 1,259.468 |
| Sludge | 23 | 3,363.135 | 23 | 3,309.439 | |
| Copper Nitrate | 11 | 289.498 | 11 | | 289.498 |
| Copper Cake (Carbonate) | 19 | 40.793 | 19 | 63.910 [1] | |
| Jewellery Waste | 22 | 129.764 | 0 | | 129.764 |
| Total | 110 | 5,998.087 | 85 | 3,373.349 | 2,594.159 |

[1] Calculated by Deloitte

The assay rates for the barrels of sweeps, dust collector and silver chloride have not been received from the refiner as of the date of this report. The expected settlement date for these items is unknown by RCM at this time, due to the fact that the refiner that has been processing the backlog of slag, is also responsible for processing these items.

All of the gross weights as stated by the refiner as received from the above shipped barrels agree to the amounts recorded as at the stocktake date.

One error was noted with respect to the sludge as noted above, for the sludge on hand at year end, RCM estimated that approximately 3,363.135 troy ounces of gold was available, Subsequent to the offsite refining, there was actually 3,309.439 troy ounces of gold. This represents an overstatement of gold of 53.696 troy ounces.

The Assay rates for copper nitrate have been received and are as follows:

| | RCM | Outside refiner | Variance |
|---------------|------------|------------------------|-----------------|
| Lot #1 | 1.409% | 1.4015% | -0.0075% |
| Lot #2 | 0.803% | 0.8031% | 0.0001% |
| Lot #3 | 0.737% | 0.7291% | -0.0079% |
| Lot #4 | 0.311% | 0.2541% | -0.0569% |

However, the final settlement has not occurred nor have the assay rates been sent to umpire. We are unable to trace the barrels on hand to a respective assay lot number at stocktake. Based on the preliminary assay results, a final settlement of less than 5 troy ounces difference from estimated is expected.

At year end, there were 19 barrels of Copper Cakes on hand and RCM estimated that there was approximately 40.793 troy ounces of gold within these barrels. These 19 barrels were shipped together with 13 other barrels. RCM estimated that, within these 32 barrels, 90 troy ounces of gold would be received. The settled gold from the offsite refiner was 107.613, representing 17.613 more troy ounces than expected. RCM cannot specifically identify how much gold came from each barrel. We estimate that the gold fineness should be increased by approximately 23 troy ounces from 40.793 troy ounces estimated.

3.2.3 Mint Office

Finished Goods

Introduction

We understand the following:

- Mint Office Finished Goods represent Gold products resulting from the refining process and remain on hand for sale to third parties.
- At the October 2008 stocktake, the finished goods was comprised of:
 - i) Au 400 oz Bars 999.9
 - ii) Au Grain 999.9
 - iii) Au Grain Kilo bottles 999.9
 - iv) Au Kilo bars 999.9
 - v) Au Grain 999.99
 - vi) Au Canadian Grain 999.9
 - vii) Au Canadian Kilo Bars 999.9
- Count tags were used for the October 26, 2008 stocktake. The count was performed as of this date.
- The tags used contained the lot number and the Container number for each of the items as per the BPCS system on the count date. During the count, the lot number and container number for each tag was compared to the actual item being counted. On the basis that the tag information matched the physical item, the weight associated with the finished items was taken and recorded on the tag.

Deloitte Procedures

1. Reviewed the Finished Goods Stock spreadsheet for formula accuracy and agreement to the balance represented in the global reconciliation.
2. Compared all items recorded in the Finished Goods Stock Spreadsheet to the count tags used on the day of the count. Weights recorded, lot number and container number as per the tags were compared to the spreadsheet.

3. Given that the items in this balance were in a finished state at the time of the count, the expectation was that these items should all be recorded with a fineness factor of 999.9 or 9999.9. With this in mind, we reviewed the spreadsheet to determine if fineness factors varied from this expectation.

Results of Procedures

We identified an understatement of 0.3 troy ounces. Tag #104, Item # 68000CDN, Au Canadian Grain - gross weight according to the count tag was 677.830 troy ounces. The gross weight as recorded in the final stock spreadsheet was 677.530 troy ounces.

3.2.4 Assay Department

Introduction:

We understand the following:

- The Assay Department performs their counts independently of the other locations within RCM.
- The cut-off date for the October 2008 stock count was October 24, 2008.
- Assay Department stock includes:
 - Assay samples from rough deposits (dips)
 - Working materials to perform the assay sampling and for machine calibration
- No count tags were used for purposes of this count, the count was performed by in-house assay personnel.
- The stocktake process involves two computer linked balances that calculate a difference and allow the operator at each balance to see whether or not they are high, low or that the figure entered for any specific item on the list has a matching and acceptable weight before moving to the next material to weigh.
- The balance is comprised of more than 136 items and 3 solutions with a total gross weight of 2,472.944 troy ounces.

Deloitte Procedures:

1. The Assay Department count sheets were reviewed for formula accuracy
2. The Fire Assay rates were reviewed to identify any possible anomalies

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

3.3 Opening physical stocktake – October 27, 2007

Introduction:

We understand that the prior year, October 2007 physical count was performed room by room/area by area. However, RCM did not use count tags to document these counts.

Deloitte Procedures:

1. Reviewed the October 2007 final stock listing for formula accuracy.
2. Reviewed the recorded amounts and applied our knowledge of the refinery process and industry environment to assess if the weights and fineness factors appeared reasonable in October 2007.
3. Cut-off review was performed on receipts and shipments around the October 2007 count.
4. Met with RCM Refinery Director, Mint Office Director and Precious Metals Controller. As a group, we critically reviewed the entire October 2007 final stock listing, including gross weights and fineness for reasonability of the balances at year end.
5. We have not validated the quantities that were counted and recorded as we did not attend the October 2007 stocktake and count tags were not created by RCM.

Results of Procedures:

We identified the following differences in gold, as a result of formula errors:

- An overstatement of 65.765 troy ounces. Standard Sample 198 had an assay rate of 995.40% which should have been recorded as 99.54%

3.4 Metal Received - Rough Deposits, Final Settlements

We understand that there are two types of precious metals receipts – rough deposits and direct deposits. Each physical receipt of metal has a corresponding increase in the customer pool account in RSS. Rough deposits are discussed in this report section 3.4 and direct deposits in the next report section.

Introduction

Rough deposits are intended for further refining. A receipt from a customer can be comprised of many “lots” or “deposits”. RCM accepts individual deposit sizes up to 1,200 gross troy ounces. These deposits contain an amount of both gold, silver, and other materials, to varying degrees.

The fine weight received by RCM that is entered into the system is agreed between the customer and RCM, after having applied an assay procedure to the rough weight.

$$\text{PREMELT DEPOSIT WEIGHT X GOLD ASSAY} = \text{FINE GOLD WEIGHT (GOLD RECEIVED)}$$

The following documents are received, updated or created in the receiving process:

- Customer representation of gross weight and fine weight - may be provided to RCM.
- Manual receiving log - Records the date, number of deposits, client name and manually assigns a sequential lot number to each deposit. This manual log is updated by RCM as it is received.
- Rough Deposit Log – created by Mint office staff to record the customer representation of gross weight and the RCM weight.

- Premelt Deposit Log – created by Mint office staff to record a first and second weight of the premelt deposit. These weights are usually taken at the end of a shift, and a second the next morning (minor decreases in weight are expected on the second weight)
- Deposit Final Memorandum – RSS system printout that summarizes the gross weight received from the customer, the premelt deposit weight, and the agreed/settled fine weight, after application of the assay.

All rough deposits are recorded in RSS as pool credits. The deposit final memorandum is faxed to the customer.

Deloitte obtained two data dumps of RSS data “Customer Receipts Listing” and “Deposit Master Listing”.

Gross weight of deposits

Deloitte Procedures

Number of Receipts

1. Reconciled every item in the manual receiving log to the customer receipts listing.
2. Performed cut-off testing of transactions before and after October 2007 stocktake date and October 2008 stocktake date.

Gross weight received

Procedures 3 to 6 below were performed on a non-random sample of receipts as follows:

| Receiving period | Population | | Deloitte reviewed | |
|-------------------------------|------------|-------------|-------------------|-------------|
| | Count | Troy ounces | Count | Troy ounces |
| Oct. 22, 2007– Dec. 31, 2007 | 268 | 482,115 | 125 | 247,300 |
| Jan. 1, 2008 to Oct. 20, 2008 | 1,251 | 2,351,062 | 1,251 | 2,351,062 |
| Total | 1,519 | 2,833,177 | 1,376 | 2,598,362 |

3. Traced each deposit final memorandum found in the client folder to its corresponding entry in the customer receipts listing.
4. Confirmed that the RSS printout in the final memorandum tied to the customer receipts listing for the following fields: receipt number, customer name and number, number of deposits, date received, and total gross troy ounces received.
5. Confirmed that the RCM gross weight per the rough deposit log agrees to the weight recorded in the RSS system in the deposits master listing.
6. When a customer representation of weight existed, compared the customer’s representation to RCM’s calculated gross weight per the deposits master listing.
7. Reconciled the gross weight and number of lots received on the “Customer Receipts Listing by Receipt #” (includes a summation of all the lots within the receipt) to the gross weight on the “Deposit Master Listing” (includes each lot within the receipt separately).

Premelt deposit weight

- For calendar 2008 transactions, reconciled the premelt deposit weight sheets to the premelt deposit gross, sample, and scrap weights recorded in the deposit master listing.

Results of Procedures:

Final deposit memorandums and supporting documentation could not be located for 8 of 1,376 deposits reviewed, representing 65.17 troy ounces. Of this amount, 20.77 troy ounces was related to deposits from customers whose pool balances has been confirmed by the Office of the Auditor General (see pool account testing).

All records in the manual receiving log were included in the deposit master listing except for four deposits from Customer A. We understand that these deposits were returned to the customer, therefore no final settlement was reached for deposit to the customer account. There were no items found in the deposit master listing that could not be found in the manual receiving log.

We identified eight differences in the gross weight recorded between the rough deposit log and the deposit master listing, for a net overstatement of 105.789 *gross* troy ounces. It is not possible to determine if the rough deposit log is incorrect, or if a revised weight was performed and not recorded. We have not adjusted the metal reconciliation for this amount.

Of the 5,333 total rough deposits (3,525 receipts), aftermelt forms were not located for 369 deposits (172 receipts), representing 7% of deposits (5% of receipts) reviewed by Deloitte. Alternatively, we reviewed the relative weight of the aftermelt in comparison to its gross receiving weight.

The following discrepancies were noted between weights of aftermelt weight logs and the deposit master listing.

| P/O # | Lot # | Customer | Discrepancy (troy oz) | Description |
|-------------------------|----------|------------|-----------------------|--|
| 947842 | 80351 | Customer B | 183.94 | First weight per aftermelt form: 868.04 oz; Second weight: 684.04 oz. Weight per RSS is 867.98 oz. No note of the discrepancy was made on the aftermelt form. |
| 948636 | 83011-13 | Customer C | 166.00 | For deposit 83011, the weight in RSS was 51 oz greater than the weights on the form. For deposits 83012 & 83013, the RSS weight was 57.5 oz greater than the form weights. |
| 948158 | 81345 | Customer D | 46.91 | Weight per aftermelt (weighed once): 848.42 oz. Weight per RSS: 945.33 oz. Item is starred and circled on aftermelt form but no further documentation was included. |
| 948011 | 80897 | Customer E | -100.25 | First weight per aftermelt form: 1,178.75 oz; Second weight: 1,178 oz. Weight per RSS is 1,077.75 oz. No note of the discrepancy was made on the aftermelt form. |
| All other discrepancies | | | -75.45 | 352 minor discrepancies were identified, resulting in this difference. The nature of these discrepancies is detailed below. |
| Total | | | 221.15 | |

We have not adjusted for these differences in the metal reconciliation summary. The customers have settled on the aftermelt weight as recorded in RSS.

Fine weight of deposits

RCM assay lab tests the rough deposits and determines the assay result. We understand that for gold assays, the assay result is automatically transmitted from the assay system to the RSS system. The mint office employee can accept the assay, and post the deposit fine weight, or they may enter a different assay result. This would occur when the deposit is subject to splitting limits².

We understand that during the period under review, a total of 207 deposits were subject to splitting limit requirements, of which 196 were deposits from one particular RCM customer. The application of the splitting limit rules and calculation of the final assay result is performed by RCM in an Excel spreadsheet REFUMP.xls. The Assay department enters the RCM fineness values into REFUMP and the Mint Office employee inputs the customer and umpire values.

Deloitte Procedures

1. For non splitting limit deposits, identified a sample of 10 deposits that had unusual fineness factors recorded in RSS and traced the factor to the assay report prepared by assay lab.
2. Reviewed the mathematical accuracy of the REFUMP spreadsheet, based on our understanding of the splitting limit calculations.
3. For all deposits in the REFUMP spreadsheet, traced the calculated settled gold fineness to the Deposits Master Listing's "Gold Fineness".
4. Recalculated the fine gold credit amounts recorded in RSS based on the aftermelt weight and fineness amounts in RSS.

Results of Procedures

Based on the results of our procedures, we did not identify any transactions that would require adjustment in the reconciliation.

3.5 Metal Received - Direct Deposits

Introduction

We understand that direct deposits are receipts of refined metal intended for use in bullion and numismatic production or for storage in their existing form.

The following documents are received, updated or created in the receiving process:

- Customer representation of gross weight and fine weight - may be provided to RCM.
- Fine Deposit Log – created by mint office staff to record the customer representation of gross weight and the RCM weight.
- Deposit Final Memorandum – RSS system printout that summarizes the fine weight received from the customer.

² Splitting limits are specific in the contract between RCM and the customer. If the difference between RCM's assay and the customer's assay is within the limits, the two parties agree to split the difference. If the difference is outside those parameters, then an independent umpire conducts an assay.

Deloitte Procedures

Procedures 1 to 3, below, were performed on a non-random sample of receipts as follows:

| Receiving period | Population | | Deloitte reviewed | |
|-------------------------------|------------|-------------|-------------------|-------------|
| | Count | Troy Ounces | Count | Troy Ounces |
| Oct. 22, 2007– Dec. 31, 2007 | 17 | 126,401.40 | 3 | 77,400.06 |
| Jan. 1, 2008 to Oct. 20, 2008 | 89 | 864,974.12 | 89 | 864,974.12 |
| Total | 106 | 991,375.52 | 92 | 942,374.18 |

1. Traced each deposit final memorandum found in the client folder to its corresponding entry in the customer receipts listing.
2. Confirmed that the RSS printout in the final memorandum agreed to the customer receipts listing for the following fields: receipt number, customer name and number, number of deposits, date received, and total gross troy ounces received.
3. When a customer representation of weight existed, compared the customer's representation to RCM's calculated gross weight per the deposits master listing.
4. Recalculated the fine gold credit amounts recorded in RSS based on the gross weight and stated fineness amounts recorded in RSS.
5. Performed cut-off testing of transactions before and after October 2007 stocktake date and October 2008 stocktake date.

Results of Procedures:

Final deposit memorandums and supporting documentation could not be located at RCM for 1 of 92 deposits reviewed, representing 4,063 troy ounces. We identified an account statement prepared by the customer which confirmed the pool account balance just after this deposit date.

Based on the results of our procedures, we did not identify any transactions that would require adjustment in the reconciliation.

3.6 Metal Disbursed - Shipped to Customers

3.6.1 Shipped from Mint Office to Customers

Introduction

RCM receives customer orders for mint office finished goods such as 400 troy ounce bars, 100 troy ounce bars, kilo bars and grains. We understand the following shipping process, based on walkthroughs performed of shipping transactions and discussion with RCM personnel:

- Orders may arrive by facsimile, e-mail or phone. Source documentation may not exist for the order if it was phoned in and not subsequently followed up by a facsimile or e-mail. Some orders are prearranged, such that each specific order notification is not provided.

- When the order weight is known and input in to the system, the system automatically creates a pick list based on product available to ship. When mint office employees approve the order, it becomes the “allocated list” and is used for picking and packing purposes.
- The customer arranges the commercial carrier and pickup date. Mint office employees prepare a carrier waybill, identifying the value and weight of the order. If a commercial carrier is not used by the customer, the customer designate who picks up the order will sign the allocated list.
- RCM prepares manual waybills for certain commercial carriers. Carbon copies of each waybill are retained by RCM in a log book.
- RCM prepares electronic (Excel-based) waybills for other commercial carriers shipments. A “running list” of waybills prepared is maintained in the electronic file. The actual waybill is not maintained electronically by RCM, however the printed copy signed by the carrier is retained in the customer file.
- Orders are posted/debited to customer pool accounts after the pickup has been made. A “Client Order Confirmation” sheet is automatically printed out when the order is posted. This is stapled to the Allocation List and shipping/waybill documents to be put in the customer file. A second copy of the Client Order Confirmation is faxed to the customer.

We were provided with an excel spreadsheet “RSS Client Orders.xls” which represents a data dump of the orders posted in the pool accounts in RSS system during the selected period.

The following RSS transactions posted orders were recorded during the period October 24, 2007 through October 25, 2008:

| | Troy Ounces | Transactions | Customers |
|--|---------------------|--------------|-----------|
| Shipments to customers – not through consignee | 2,422,070.89 | 657 | 39 |
| Shipments to customers – from consignee | 414,523.69 | 101 | 3 |
| Movements to allocated storage | 188,519.31 | 28 | 2 |
| Total number of ounces shipped from Mint Office | 3,025,113.89 | 786 | |

Deloitte Procedures

1. For all waybill copies/logs or waybill copies/running list, traced from the source (shipping) documents to the system entries to test the completeness of the shipments made and posted as customer orders.
 - a. For armoured car carriers other than Commercial Carrier A, verified that all records that appeared in the commercial carrier log books (excluding Commercial Carrier A) were entered into the RSS system correctly by ensuring that the RSS Client Orders spreadsheet reflected a delivery of the same quantity for that customer on that date.
 - b. For Carrier A shipments, matched the records on the ‘running list’ of deliveries and within the reconciliation to entries in the RSS system. The running list records the related order number for the shipment.

- c. For Carrier A shipments, identified the printed waybills and verified that all records were entered into the RSS system correctly by ensuring that the RSS Client Orders spreadsheet reflected a delivery of the same quantity for that customer on that date.
 - d. For all commercial carriers, reconciled the date, weights, dollar values, type of product being picked up (and number of pieces, if possible) from the waybill to the customer order.
2. For waybills that are numbered sequentially, confirmed that there were no gaps in the sequencing.
 3. Performed cut-off testing of shipping transactions before and after the October 2007 stocktake date and the October 2008 stocktake date.

Results of procedures:

We did not identify any shipments of mint office product that was not already recorded as an order in RSS. We identified shipping documents for other products such as GMLs, sweeps, slag, silver chloride, empty drums and diamonds. We understand that these shipments would not be posted to pool customers. After tracing all the shipping documents to the RSS system, there were shipping transactions that were recorded in RSS totalling 2,608.02 troy ounces that were not accounted for.

Based on the results of our review procedures, the specific method of delivery is summarized as follows:

| Carrier | Count | % | Troy Ounces | % |
|---|------------|---------------|---------------------|---------------|
| Shipped out of RCM | | | | |
| Commercial Carrier A | 454 | 66.9% | 2,187,189.99 | 83.8% |
| Commercial Carrier B | 51 | 7.5% | 99,273.02 | 3.8% |
| Commercial Carrier C | 45 | 6.6% | 79,630.60 | 3.1% |
| Commercial Carrier D | 2 | 0.3% | 52.15 | 0.0% |
| Commercial Carrier E | 4 | 0.6% | 1,594.26 | 0.1% |
| Commercial Carrier F | 1 | 0.1% | 31,958.49 | 1.2% |
| Customer designated representative (non-commercial carrier) | 79 | 11.6% | 19,764.36 | 0.8% |
| Unknown/Not identified by Deloitte | 15 | 2.2% | 2,608.02 | 0.1% |
| Subtotal | 651 | 95.9% | 2,422,070.89 | 92.8% |
| Transferred within RCM | | | | |
| Movement to Allocated Storage ** | 28 | 4.1% | 188,519.31 | 7.2% |
| Total | 679 | 100.0% | 2,610,590.20 | 100.0% |

* Sample includes bottled gold, gold bars, gold grain, grain high grade, grain S. packed, other bar types. Sample excludes sweeps, silver bars – pool, silver grain, mint sales, coins sold, assay samples.

** Movements to allocated storage reconciled to storage continuity - receipts

3.6.2 Shipped from Consignment Locations to Customers

For shipments to consignment locations and from consignment locations to customers, refer to testing in section 5.1.

3.7 Metal Received from and Shipped to Ottawa Production

Introduction

We understand that the refinery manufactures rolling stock for RCM's use in the bullion and numismatic production. Precious metals in the form of rolling stock is physically transferred from the refinery area of RCM to the production area when it is produced. The accounting for this transaction results in the material being moved from the refinery RSS system to the production DAX system. The transfer represents a metal disbursement of the refinery and is accounted for on the refinery gold statement.

We further understand that gold and silver scissel and other reject material from the bullion and numismatic business is returned to the refinery for recasting. The accounting for this transaction results in the material being moved from the production DAX system to the refinery RSS system. The physical transfer of this material from the production area to the refinery represents a metal receipt of the refinery and is accounted for on the refinery gold statement.

RCM has identified the total of these physical transactions as follows:

| Transfers From Refinery to Production | | | Transfers From Production to Refinery | | |
|---------------------------------------|-------------------------|---------------------|---------------------------------------|------------------|---------------------|
| Item # | Item Description | Troy ounces | Item # | Item Description | Troy ounces |
| 16000 | Au Scarfed Bar 24KT 999 | 2 063 116,50 | 35000 | 9999 Au | 1 308 380,47 |
| 16010 | Au Scarfed Bar 24KT 999 | 129 749,67 | 35010 | 99999 Au | 87 865,72 |
| 16100 | Au Scarfed Bar 22KT | 3 324,87 | 35100 | 22K Au Ag | 2 348,58 |
| 16126 | Au Scarfed Bar 18KT | 5 632,14 | 35126 | 18 K Ag | 1 051,38 |
| 16150 | Au Scarfed Bar 14KT | 28 206,37 | 35150 | 14K Ag | 44 517,98 |
| 16151 | Au Unscarfed Bar 14KT | 57 218,05 | 35251 | 4.1/22kt au | 0,21 |
| 35000 | 9999 Au Feedstock | 3 634,09 | 35301 | 9999 Ag/Au plt | 5,76 |
| 4601007 | Million-dollar coin | 9 901,02 | 35401 | 925 Ag/Au plt | 143,94 |
| Total transfered to Production | | <u>2 300 782,71</u> | Total transfered from Production | | <u>1 444 314,04</u> |

We understand that the total of these transactions was derived by RCM through a comprehensive reconciliation performed in Excel of every line transaction within each of the RSS and DAX systems. Through this reconciliation, RCM identifies transactions that are in one system but not in the other, and determines which system is an accurate accounting of the physical movement, and whether the unreconciled transaction should be included or excluded from the refinery gold statement. Line items which are ultimately excluded are presented on the schedule as "Excluded from total".

Deloitte Procedures

1. Tested the mathematical accuracy of and reviewed formulas within the DAX to RSS reconciliation.
2. Tested completeness of the schedules. Downloaded source data from both the RSS and DAX systems and compared to RCM's Excel-based reconciliation. Investigated all differences identified.

3. Reviewed the reconciliation for any unusual transactions. Investigated all unusual items noted.
4. For all thirty-one transactions identified by RCM as “excluded from total”, obtained source documents and explanations to ensure that the transaction was appropriately excluded.

Results of Procedures

As a result of applying the above procedures, nothing came to our attention that would require an adjustment to the Transfers from Production to Refinery and Transfers from Refinery to Production balances recorded by RCM.

3.8 Other disbursements

Introduction

We understand that process losses, giveaways, stack losses and outside refiner retentions are estimated by RCM to be 3.5 troy ounces per ten thousand troy ounces refined.

Deloitte Procedures

1. Reviewed mathematical accuracy of RCM process loss, giveaway, stack loss and outside refiner retentions calculations. Verified whether the calculated amounts were appropriately accounted for in the precious metal reconciliation.

Results of Procedures

As a result of applying the above procedures, nothing came to our attention that would require an adjustment to the other disbursement recorded in the metals reconciliation.

4 Mint Office and Refinery – Onsite Storage

RCM provides storage services for specifically identifiable gold for its customers. The following section outlines the transactions for the period under review and discusses the procedures performed with respect to this department of RCM.

4.1 Introduction

| Storage customer | Opening Inventory | Metal Transactions | Closing Inventory |
|-------------------------|-------------------|--------------------|-------------------|
| | A | B | A + B |
| Storage customer A | 231,087.984 | 190,634.231 | 421,722.215 |
| Storage customer B | 5,515.070 | 2,354.287 | 7,869.357 |
| Storage customer C | 3,501.000 | (2,749.560) | 751.440 |
| Storage customer D | 1,464.831 | 2,884.556 | 4,349.387 |
| Other storage customers | 125,674.701 | | 125,674.701 |
| Total | 367,243.586 | 193,123.514 | 560,367.100 |

We understand the following:

- There is no refining or sales associated with the storage portion of inventory. RCM storage inventory represents refined gold (or other precious) metals received from customers for safekeeping. It is specifically identifiable.
- Storage inventory was counted on October 26, 2008. The 400 oz. bars on hand were checked against an itemized listing of bars on hand. The remaining items, given the frequency of additions and disbursements were counted on Monday, October 20, 2008. Any variances were investigated by RCM at the time and the balance on hand was reconciled to the balance in the system. The on hand inventory was then counted again on the count date using blank count tags.
- The count tags included a description of the item to be counted and the unit of measurement to be counted. The person in charge of the count was to count the items and record the amount on the tag.
- The balance in the BPCS system has been overstated by 5 oz. There has been correspondence with IT in an attempt to correct this variance. A current print out of both the RSS system and the BPCS system was provided during our review to show that the 5 oz variance was still present within the system.

4.2 Opening and Closing physical stocktake – October 27, 2007 and October 26, 2008

Deloitte Procedures

1. Prepared a continuity schedule for the storage accounts for the year.
2. Compared the opening balance to the final October 2007 balance.
3. Reviewed the 2008 final stock count sheet for formula accuracy.
4. Traced the amounts on the 2008 final stock count sheet to the final reconciliation.
5. For each of the items that were counted using tags, compared the tag to the final listing.
6. For the 400oz bars, the listing of bars was recalculated and compared to the amounts as recorded in the final stock count sheet.

Results of Procedures

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

4.3 Metal Transactions

Introduction:

The storage account increased 193,123.51 troy ounces during the period, being the net of amounts deposited from pool accounts and withdrawals to pool accounts. Gold is physically moved into or out of a segregated area at the time of the transfer.

Deloitte Procedures:

1. Reconciled all amounts received into storage to related amounts withdrawn from the pool.
2. Reviewed documentation for every withdrawal from the pool account.
3. Reconciled transfers between storage accounts.
4. See also testing of storage account confirmation process in Section 7.5.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

5 Mint Office and Refinery: Offsite

There are two areas within the metal reconciliation that include shipments of gold offsite to be held at non-RCM locations. These are consignment transactions and byproducts shipped offsite for processing. The following section discusses our work performed in these areas.

5.1 Finished Goods Consignment Transactions

| Gold Consignment Stock Continuity (oz) | | Comments |
|---|----------------------|------------------------------|
| Opening Inventory on consignment | 17,550.321 | |
| Gold Shipped from RCM to Consignee | 402,606.080 | |
| Gold shipped from consignee to final customer | <u>(403,563.519)</u> | <i>Refinery disbursement</i> |
| | (957.439) | |
| Krugerrands shipped to consignee from RCM | 3,000.300 | |
| Krugerrands shipped to consignee from customer | 8,000.800 | |
| Krugerrands shipped from consignee to third parties | <u>(11,001.100)</u> | <i>Refinery disbursement</i> |
| | 0.000 | |
| Closing Inventory on consignment | 16,592.882 | |
| Balance confirmed by consignee | <u>16,593.450</u> | |
| Variance | <u>(0.568)</u> | |

Introduction:

We understand the following with respect to consignment transactions:

- In an effort to provide more timely delivery to customers in the United States, the RCM allows for consignment sales to occur. In such cases, RCM products are shipped to various locations or consignees where stock is held until such time as it is sold to a third party. From the October 2007 stocktake date to the October 2008 stocktake date, the RCM transacted with three companies on a consignment basis.
- Stock to be sent on consignment is allocated, packed and shipped to the consignee in a manner similar to all shipments sent from the Mint. The exception however, is that the order is never posted within the RSS system as a sale as the Gold remains the property of the RCM. Rather, the transaction reflects a change in warehouse location of the inventory. Inventory is typically recorded as being held in the "Refinery" or RF Warehouse. When finished goods stock is shipped to a consignment location, the shipment is recorded as a movement of stock from the RF Warehouse to the "Refinery Offsite" or RO Warehouse.
- Once at the consignment location, the stock is held by the consignee until such time as the goods are sold to a third party. It is at this point that the consignee will notify the RCM via correspondence. Consignee A faxes a "Request for Release" form to RCM. Consignee B, for the one transaction during the period, provided an email to RCM.
- RCM, in order to record this as a final sale within its system, allocates the items sold within the BPCS system and posts an order in RSS as an order from the RO Warehouse. It is at this point that the sale is recorded and the stock is depleted.

We understand the following with respect to the transactions relating to Krugerrands (A South African gold coin):

- Consignee A had on hand in their own inventory 13,500 Krugerrand coins which were not turning over very quickly and as such preventing Consignee A from being able to use the gold contained in the Krugerrands to conduct business transactions. As such, Consignee A and RCM agreed that RCM would take possession of the Krugerrands (transacting an increase to Consignee A's inventory pool accounts); in return, RCM would send the Krugerrands to Consignee A on consignment for sale if/when the transactions would occur.
- Of the 13,500 Krugerrands, 8,000 Krugerrands were never physically received at RCM, these 8,000 were transacted from Consignee A owned inventory to RCM Consignment inventory at Consignee A. RCM recorded this in RSS as an increase to their consignment warehouse.
- The remaining 5,500 Krugerrands were physically shipped from Consignee A to the RCM. The RCM received these coins as an increase to the RF (Refinery) Warehouse. Of these 5,500 coins, 2,500 were then transferred to the refinery where they were melted down and used to produce other products. The remaining 3,000 coins were shipped back to Consignee A on Consignment (in the system this was recorded as a transfer from the RF warehouse to the RO warehouse) and ultimately sold along with the 8,000 coins that never left Consignee A.
- In total, 11,000 Krugerrand coins were sold from Consignment and 2,500 were received and refined.

Deloitte Procedures:

1. We reviewed the Consignment Continuity Schedule for formula accuracy and reconciled the balances to the global reconciliation.
2. We obtained a listing of all gold shipped to or from consignment locations.
3. We reviewed the supporting documentation with respect the Krugerrand transactions.
4. We reviewed the shipping documentation related to the shipments from the Mint to the Consignee. The review included a comparison of the allocation of order as per RSS to the amounts as recorded on the shipping documentation. Dates of shipments were also reviewed to determine if a cut-off issue was present.
5. For each of the shipments from the Consignee to a third party, documentation from the Consignee indicating that a sale of goods had occurred was reviewed. In addition, a comparison was made between the items indicated from the Consignee as sold and the items posted in RSS to determine if a proper allocation was made of transactions. The comparison would include comparing the troy ounces recorded, the type of gold and serial numbers if applicable.
6. With respect to the closing stock balance we reviewed the confirmation received from Consignee A as of October 16, 2008 and the reconciliation of this confirmation to the final stock balance as at October 24, 2008. For any transactions occurring between this time period, supporting documentation was reviewed.

Results of Procedures:

We have not been provided with documentation to support 5,500 Krugerrand coins that, based on our understanding, should have been received at the RCM. It appears that they were received, as we have identified them subsequently being shipped out of RCM or processed within the refinery.

With this exception, based on the procedures outlined above, we did not identify any amounts that required adjustment in the metal reconciliation.

5.2 Byproducts - Offsite Refiner Transactions

See section 3.2.2 By-Product Onsite for an explanation of the nature of the byproducts shipped offsite. The following table summarizes the physical transactions related to this outside processing.

| <u>Offsite Refiner Transactions (oz)</u> | <u>Comments</u> |
|--|--|
| Opening Balance | 15,866.586 |
| Adjustments to Opening Balance | (428.666) |
| By-Products Shipped Offsite | 13,434.328 |
| Gold Retained by Offsite Refiner | (294.058) <i>Refinery disbursement</i> |
| Gold Settled or sold | <u>(21,907.485) <i>Refinery disbursement</i></u> |
| Closing Balance | <u>6,670.705</u> |

Deloitte Procedures:

1. Reviewed OSR Tracking spreadsheet for formula accuracy
2. Reconciled the opening stock and closing stock balances recorded in the global reconciliation to the OSR Tracking spreadsheet.
3. Compared OSR Tracking spreadsheet to source documentation from outside refiners with respect to weights received, agreed upon assay and precious metal retained by the refiner for shipments relating to the opening balance and the shipments occurring in the period under review.
4. For those shipments that were settled by increasing the refiners pool account, reviewed the source documentation with respect to the final precious metal weights refined.
5. For those shipments that were settled by payment of funds, documentation was reviewed to confirm precious metal prices agreed upon between the RCM and the customer, precious metal available for settlement and final wire transfer documentation to confirm prices and amounts.

Results of Procedures:

We identified an understatement of 2.8563 gold troy ounces as a result of the use of an estimated amount of gold as compared to the settled balance of gold. Otherwise, based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

5.3 Finished goods offsite display

Introduction:

We understand that there were nine (9) 400oz bars and one (1) kilo bar on loan for display offsite at year end. This balance was not confirmed as at October 26, 2008 rather, the balance as per the RSS system was taken to be correct.

Deloitte Procedures:

Reviewed the documentation relating to the two shipments made to relocate the gold bars from the Refinery to the display location. This included a review of the allocated list from RSS and the related commercial carrier shipping documentation. Matched the order number referenced on the shipping documentation was matched to a posted order in the RSS system

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

6 Production Transactions

6.1 Closing physical stocktake – October 26, 2008

The precious metal content of production stock includes the gold content of bullion and numismatic product on hand at the count date.

Introduction

We understand that:

- Rolling stock (scarfed bars) transferred from the refinery to RCM production are used to manufacture RCM bullion and numismatic products.
- Production stock, manufacturing, and transactions are recorded in the DAX ERP and accounting system.
- Production items are all lot controlled and subject to periodic cycle counts by RCM employees.
- Based on the reconciliation calculations, the unaccounted for difference does not appear to relate to RCM's production operations.

Deloitte Procedures

1. Performed critical review of logic and mathematical calculations included in the production (bullion and numismatic) stocktake schedules.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

6.2 Bullion transactions

Introduction

RCM bullion sales include the sale of Gold Maple Leaf ("GML") coins and gold wafers that are manufactured in the production business line. We understand that RCM accounts for the physical shipment of bullion and related sales in the DAX ERP system. A separate Excel schedule of bullion sales (GML2008.xls) is maintained by RCM Bullion Sales Coordinator. All bullion sales are assigned a sequential transaction number.

Bullion sales which are shipped from RCM by carriers or picked-up by buyers are considered by RCM to be sold when the bullion is physically shipped or picked-up from RCM. For bullion sales made from consignees stock, the bullion is considered sold based the date the customer makes a payment to RCM for their purchase ("release date").

Deloitte Procedures:

1. Performed cut-off testing of bullion sales transactions at each of October 2007 and October 2008 physical stocktakes. Traced recorded sales to physical shipping documents for material

shipments from RCM and traced recorded sales to transaction statements for shipments from consignees.

2. Reconciled GML2008.xls to the bullion sales recorded in DAX.
3. Reviewed the sequence of sales recorded on the bullion sales transactions sheets. Reviewed unusual items to confirm the completeness of recorded GML shipments.

Results of Procedures:

Based on the results of our procedures performed, we did not identify any differences that would require a change to the precious metals reconciliation.

6.3 Numismatics transactions

Introduction

The precious metal content of numismatic finished goods are considered to be all the inventory of RCM, since it is not in a physical state that can be returned to pool account customers. RCM's ownership interest in gold on hand is first attributed to the numismatic finished goods, with the balance relating to numismatic work in process and other unallocated gold at RCM.

RCM Ownership Items

RCM ownership items includes numismatics finished stock (lot control) plus RCM's virtual ownership interest (being the net of RCM precious metal purchases less precious metals converted to numismatic finished stock and giveaways/process losses).

| Virtual ownership items | + Numismatics finished goods | = Total |
|--|---|--|
| Opening stock | Opening stock | Opening stock |
| Add: Metal purchases | | Add: Metal purchases |
| Add: Metal retentions | | Add: Metal retentions |
| Less: Packed numismatics | Add: packed numismatics | |
| Less: Process losses | | Less: Process losses |
| Less: Giveaway on Mint Office finished goods and bullion | | Less: Giveaway on Mint Office finished goods and bullion |
| Calculated closing stock | Less: numismatics sales Calculated closing stock | Less: numismatics sales Calculated closing ownership |

Assuming no unaccounted for difference, the calculated RCM ownership included on the global precious metals reconciliation should theoretically equal the total of RCM ownership items. The virtual ownership cannot be specifically counted in the physical stock, as it represents a calculated claim on all of the metal on hand at RCM. We did not identify any errors in the recording of third party customer's ownership account transactions. RCM has attributed the unaccounted for difference to their own ownership position.

We understand that numismatic transactions are initially recorded by RCM in DAX to reflect the shipment of finished goods, and subsequently posted to RSS to reflect the reduction in RCM's ownership position.

Most, but not all, of the remaining ownership account transactions are recorded in DAX. The remaining transactions not recorded in DAX are captured and accounted for in the precious metal reconciliation. The transactions include:

- the increase in RCM's ownership position (for precious metal purchases, and for metal retentions), or
- the decrease in RCM's ownership position (for numismatic sales, process losses, and giveaways)

Deloitte Procedures:

1. Reconciled metal purchases recorded in DAX ownership accounts 12000 to metal purchases recorded in RSS account 90100.
2. Reconciled metal retentions recorded in DAX ownership accounts 10001 to retentions in RCM pool account 90100.
3. Identified whether metal purchases resulted in any physical movement of precious metals into RCM, and confirmed appropriate accounting in metal reconciliation.
4. Reviewed RCM process loss and giveaway calculations.
5. Assessed logic of calculated RCM ownership position, as accounted for in precious metals reconciliation.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

7 Pool Accounts

7.1 Introduction – Accounting for Refinery Transactions

Each unit of precious metals in the care and custody of RCM is accounted for in two ways:

- i. physical - where is it located, and
- ii. ownership - who does it belong to

Theoretically, at any point in time, there is a balance between the physical and the ownership.

Ownership accounts are called pool accounts. A pool account is a precious metal account held with RCM where the account holder's claim is for unallocated precious metal. These accounts represent customer owned gold that RCM is holding in safekeeping for its customers. Each customer has their own pool account.

RCM has its own ownership position / pool account for its interest in the unallocated material on hand which is acquired by way open market purchases of precious metals and from retentions (a refining fee collected from customers by RCM in the form of precious metals).

The pool accounts are maintained in the RSS system by the Mint Office coordinator. The following transactions can be posted to a pool account and result in a change in the customer's ownership position/entitlement to unallocated metal:

| Action | Transaction | Pool Effect | Description |
|------------------------|------------------------------------|--------------------------|--|
| Client Receipt | Client advance | Increase customer pool | Represents credit advanced to a customer on a rough deposit received, prior to the final assay being known. Credit is based on an estimate of the deposit fineness, using an XRF quick assay machine. |
| | Provisional credit | Increase customer pool | Represents credit advanced to a customer on a rough deposit received, prior to the final assay being known. Credit is based on an estimate of the deposit fineness, using the customers representation of the deposit's fineness. |
| | Client deposit | Increase customer pool | Represents the fine weight of a rough deposit, after final and agreed upon weight and assay. All client advances and provisional credits are reversed upon posting of a client deposit. |
| | Direct deposit | Increase customer pool | Represents the fine weight of a refined/fine deposit received. |
| | Gold retain | Increase RCM pool | Represents the portion of the fine weight received that is not credited to the customer account, but is claimed by RCM as part of their refining fee. |
| Client Transfer | Transfer of pool / Receipt of pool | Decrease / Increase pool | Pool customers may sell their pool credits to another pool customer. The customer notifies RCM of the sale, who posts both a transfer of pool and receipt of pool. This is a two-sided entry that always balances to nil. Customers may also transfer their pool into a allocated storage account. |
| Client Order | Client Withdrawal | Reduce customer pool | Represents a debit posted to the customers account when precious metals are physically shipped from the RCM premises. |
| Other | Pool credit | increase customer pool | Transaction used to credit customer's pool to fix account discrepancies. Pool credits are one-sided entries. |
| | Pool withdrawal | decrease customer pool | Transaction used to debit customer's pool to fix account discrepancies. Pool withdrawals are one-sided entries. |

7.2 Reconciliation of refinery physical transactions to pool account transactions

We understand that client receipts and client orders cannot be posted to an ownership pool unless a physical movement of material (receipt or shipment) has already been recorded in the ERP system.

Deloitte procedures – client receipts:

1. Reconciled the total of all client advance, provisional credit, gold retain and client deposit transactions posted between October 28, 2007 and October 26, 2008 to the rough deposits – final settlements (physical receipts) recorded in the physical refinery gold statement.
 - a. Verified that the metal received, as recorded on the refinery gold statement did not include any client advances and provisional credits. The fine weight of rough deposits received includes only the final settlement, such that all client advances and provisional

credits outstanding as of the stock count date were updated for the final assay/settlement.

- b. Verified that reversal of provisional credits and client advances that were outstanding as of the prior year (October 2007) stock count were appropriately accounted for in the refinery gold statement.
2. Reconciled the total of all direct deposit pool account transactions posted between October 28, 2007 and October 26, 2008 to the direct deposits (physical receipts) recorded in the refinery gold statement.

Deloitte procedures – client withdrawals:

3. Reconciled the total of all “posted” client orders of mint office finished goods bars and grain to the shipped to customers (physical movement out of RCM custody) recorded in the physical refinery gold statement.
4. Reconciled the total of all “posted” client orders for sweeps to the byproducts settled and sold (physical shipments) recorded in the physical refinery gold statement. (Note: see additional detail in outside refiner section 5.2).

Deloitte procedures – client transfers:

5. Verified that for each transfer of pool there was an equal and corresponding receipt of pool.
6. Verified that the transfers of material between the pool accounts and the storage accounts were appropriately accounted for in the physical refinery reconciliation (Note: storage accounts are not included in the Refinery metal stock, therefore physical movements within RCM between unallocated metal accounts and allocated metal accounts should be accounted for in the refinery gold statement).

Deloitte procedures – other:

7. Reviewed each pool credit and pool withdrawal (one-sided adjustment) to ensure that it was appropriately accounted for in the physical refinery gold statement.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

7.3 Introduction – Accounting for Production Transactions

The bullion business operates on the DAX ERP system, however the physical shipment of precious metals offsite, in the form of bullion product, must also be accounted for from an ownership perspective. The depletion of physical material must have a corresponding depletion of ownership, within the pool accounts.

We understand that RCM leases gold and silver from financial institutions to support its bullion production business line. The accounting system used by RCM accounts for both sides of the lease/lessee transactions (one side showing ownership and the other side showing lease obligation), therefore the RCM GML account and the third party lease accounts mirror each other, ounce for ounce. RCM GML pool account is not included in the global precious metals reconciliation as this would otherwise result in double-counting of the ownership.

The lease accounts are maintained in the RSS system by the Mint Office coordinator. The following transactions can be posted to the customer's lease account ownership position, and the related transaction in the RCM GML account in order to reflect the related physical transactions.

| Action | Transaction | Pool Effect | Description |
|------------------------|---------------------------|---------------------------------|--|
| RCM GML Account | | | |
| Client Transfer | Lease Borrow | Increase RCM GML pool | To record the credit for precious metal leased by RCM to support their production business. |
| | Client Withdrawal | Decrease RCM GML pool | Represents a debit posted to the RCM account when precious metals in the form of Bullion is physically shipped from the RCM premises. |
| | Transfer/ Receipt of Pool | Decrease/ increase RCM GML pool | To record the credit for precious metal when bullion customer transfer their existing pool to RCM to compensate for the customers bullion purchases. |
| Lease Account | | | |
| Client Transfer | Receipt of Pool | Increase Lease account | To record the credit for precious metal leased by RCM to support their production business (mirrors lease borrow) |
| | Lease Reduction | Decrease Lease account | To record the debit when leased metal is sold to third party customers in the form of bullion. |

We understand that, typically, RCM ships bullion within a few days of receiving payment and reducing the pool account. A period of two days is usually noted to account for the timing of when the product is released (paid for) and when it is shipped. To the extent that the ship date is in a different period than the release date, an adjustment must be made to the precious metals reconciliation.

Decisions are periodically made to purchase gold on forward contract. When these purchases are related to a specific bullion sale, then the pool account is not reduced until the forward contract commitment date. This results in a difference between the pool account client withdrawal and the physical shipment for the period of the forward contract. An adjustment must be made to the precious metals reconciliation if the contract period crosses before and after the stocktake and reconciliation. We understand that RCM purchased some 60-day forward contracts during the reconciliation period.

7.4 Reconciliation of production physical transactions to pool account transactions

Based on data extracted from the RCM systems, the following transactions reflect the physical and logical transactions recorded in DAX and RSS.

| DAX sales 'GML' (t. oz) | RSS client withdrawals 'Gold Coins' (t. oz) | Difference (t. oz) |
|-------------------------------|--|-----------------------|
| 679,366.55 | 669,871.55 | 9,495.00 |

Deloitte Procedures

1. Identified the transactions that represent the difference of 9,495 troy ounces between the two sets of data.
 - a. To the extent that the difference related to cut-off transactions recorded on one system and not the other, crossreferenced amount to testing performed in bullion sales transactions Section 6.2.
 - b. To the extent that the difference related to other than cut-off transactions recorded on one system and not the other, obtained additional documentation to support the transaction and confirm the amount is appropriately accounted for in the metals reconciliation.
2. Confirmed that all forward contracts were identified and appropriately accounted for in the reconciliation.
3. Verified that all shipments during the period had a related reduction to an ownership pool account.

Results of Procedures:

Based on the results of the procedures performed, we identified a 5 troy ounce transaction that was double posted by RCM. We could not identify supporting for a 100 troy ounce customer order. We did not identify any other amounts that required adjustment in the metal reconciliation.

7.5 Confirmation of pool account balances

We understand that RCM's external auditor, the Office of the Auditor General of Canada (OAG) performs audit testing on the pool account balances as part of their annual audit procedures.

Deloitte procedures:

1. Met with the Office of the Auditor General of Canada (OAG) staff and gained an understanding of the pool account confirmation process undertaken by them as part of their year-end audit. Specifically:
 - a. What was the nature and extent of OAG's audit procedures performed?
 - b. What were the results of OAG's work performed?

Results of Procedures:

We understand that the OAG confirmed balances with RCM gold pool, storage and lease account customers. Their sampling methodology included selecting large pool account balances and a random sampling of low balance accounts. The confirmations returned by RCM customers represented approximately 98% of the customer's gold pool account balance (excluding RCM's own pool account balances).

We understand that the OAG performed additional audit procedures to gain assurance on confirmations received that did not initially reconcile with the RCM pool account balance.

We have the following specific understanding with respect to four of the customer confirmations:

Customer J reported a difference in gold of approximately 16,000 troy ounces less than what was recorded by RCM in their pool balance. The pool balance was misstated in RCM records as at the confirmation date as a result of incorrect gold and silver deposit fineness, on a provisional

credit. All provisional credits are reversed when a final settlement is known, therefore this account had self-corrected after the confirmation date. For the purposes of the precious metals reconciliation as at October 2008, RCM has made an adjustment to account for the final settlement of all provisional credits in pool accounts. (Note: Deloitte has tested the manual input of rough deposit final settlements in Section 3.4.)

Customer K did not respond to the confirmation request. Customer K account has 9,689.161 oz of gold, and was confirmed by the OAG in the prior year 2007 audit. The last transaction per the Report was on January 23, 2006, prior to the reconciliation period.

Customer L did not respond to the confirmation request. We understand that Customer L has a nil balance for both gold and silver and last transaction was October 17, 2006, prior to the reconciliation period.

Customer M did not respond to the confirmation request. This account has 121.634 oz of gold and 4,295.870 oz of silver at the confirmation date. There were twenty-five client deposits transactions totaling 87.619 troy ounces gold; and fifty-seven silver transactions involving client deposit, transfer of pool and receipt of pool netting 714.21 troy ounces of silver.

Deloitte has not independently sent any pool account confirmations to RCM customers as part of this review.

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

7.6 Mint Office - Pool Reconciliation

Introduction

We understand that the Mint Office pool reconciliation is prepared by RCM to summarize the differences between the pool account balances in the system at stocktake date with the pool account balances used in the metals reconciliation. The pool account balance used in the reconciliation have been updated from the system amounts to include reconciling items such as:

- Transactions recorded in RSS in the incorrect period (cut-off transactions).
- Other RSS transactions posted in error during the period, and
- Final settlement of deposits that were provisional as at October stocktake.

Deloitte Procedures:

1. Traced unadjusted balance to RSS reports. Traced adjusted balance to metals reconciliation.
2. Conducted critical analysis of reconciling items, include a review of completeness and existence of all reconciling items, in consideration of testing performed in all other report sections.

Results of Procedures:

Based on the procedures performed, we did not identify any amounts that required adjustment in the metal reconciliation.

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This report is based on our interviews conducted and review of the documents available to date. In the event that further documents or other information become available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this report.

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