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19 July 2013

Chairman's Annual Letter to Shareholders

Dear Shareholders,

For the first time in GoldMoney's 12-years of operation, revenue declined from the previous year. This result is an indication of the difficult operating conditions prevailing during the fiscal year ending 31 March 2013. In spite of this decline in revenue, I am pleased to report that GoldMoney was profitable, though barely so, particularly when compared to recent years.

Here are several key measures of performance. The US dollar amounts below are reported for convenience at $1.5193/£1, which was the rate of exchange at 31 March 2013:

- Total revenue decreased -53.6% to £413.5 million (US$628.2 million).
- Operating profit before FX fell -91.7% to £728 thousand (US$1.1 million).
- Net profit declined to £326 thousand (US$495 thousand).
- Total goldgrams in storage increased 4.7%, and total silver ounces rose 3.9%; total customer assets rose 1.0% to £1.3 billion (US$1.99 billion).
- Continuing operational success with exception-free ISAE 3402 Type 2 reports.

In view of these financial results, the Board of Directors at its last quarterly meeting decided not to declare a dividend this year. Even though dividends were paid the last three years because of exceptional profits being generated, it remains the policy of the company to retain profits in order to provide for future growth.

This year's financial results are disappointing, but perhaps not surprising. The gold price has risen twelve consecutive years, but increases the past two years were lackluster amid declining volatility, meaning that gold attracted less attention (i.e., less buying interest) than during the run-up in price in the 2009-2011 period. So with the benefit of hindsight, there was a high probability of a mediocre year for gold and silver sales. Nevertheless, as I explain below, the bullish case for the precious metals remains intact.

The Precious Metals Market & National Currencies

Gold closed on 31 March 2013 at $1,594.80 ($51.274/gg), a -4.5% decline from the previous year-end close of $1,669.30 ($53.669/gg).

Based on the daily close in New York, gold's rate of exchange to the US dollar during our fiscal year ending 31 March 2013 ranged from a high of $1,794.10 ($57.682/gg) to a low of

$1,536.20 per ounce ($49.390 per goldgram). This $257.90 high-to-low range was considerably less than the $460.60 range the previous year, which saw gold achieve a record high of $1,888.70 ($60.723/gg) and a low of $1,428.10 per ounce ($45.915 per goldgram). Viewing this reduced volatility another way, gold's price range was only 16.8% of its low price, compared to 32.3% last year.

The absence of a new record high price and declining volatility no doubt reduced buying interest, which negatively impacted gold sales. This same conclusion applies to silver.

Silver's rate of exchange to the US dollar at our fiscal year end was $28.29, a -12.9% decline from the previous year-end close.

Based on the daily closing price in New York, silver during our fiscal year ranged from a high of $35.04 to a low of $26.25 per ounce. This $8.79 range compares to the $21.39 range the previous fiscal year, clearly illustrating a decline in volatility, yet as is the norm, silver was more volatile than gold. Silver's $8.79 difference between its high and low price during our fiscal year was 33.5%, twice the percent for gold. Nevertheless, silver volatility declined from the 78.7% range in our previous fiscal year.

The gold/silver ratio at our fiscal year end rose to 56.4 ounces of silver to equal the dollar value of one ounce of gold from 51.4 previously. The high was 59.0, while the low was 50.2. This 8.8 range compares to the huge 25.5 range the ratio achieved the previous fiscal year, again another indication of reduced volatility.

The following table presents the rate of appreciation of gold and silver against the US dollar for each calendar year since the beginning of this bull market in the precious metals.

	Gold	**%**	**Silver**	**%**
Dec-00	$ 272.00		$ 4.59	
Dec-01	$ 278.70	2.5%	$ 4.58	-0.1%
Dec-02	$ 347.60	24.7%	$ 4.80	4.8%
Dec-03	$ 415.70	19.6%	$ 5.95	24.0%
Dec-04	$ 437.50	5.2%	$ 6.81	14.3%
Dec-05	$ 517.10	18.2%	$ 8.82	29.6%
Dec-06	$ 635.20	22.8%	$ 12.82	45.3%
Dec-07	$ 834.90	31.4%	$ 14.80	15.4%
Dec-08	$ 883.60	5.8%	$ 11.27	-23.8%
Dec-09	$ 1,095.20	23.9%	$ 16.82	49.3%
Dec-10	$ 1,421.10	29.8%	$ 30.91	83.7%
Dec-11	$ 1,565.80	10.2%	$ 27.88	-9.8%
Dec-12	$ 1,674.80	7.0%	$ 30.17	8.2%
Annual Average Appreciation		**16.8%**		**20.1%**
As of 30-Jun-13	$ 1,223.80	-26.9%	$ 19.45	-35.5%

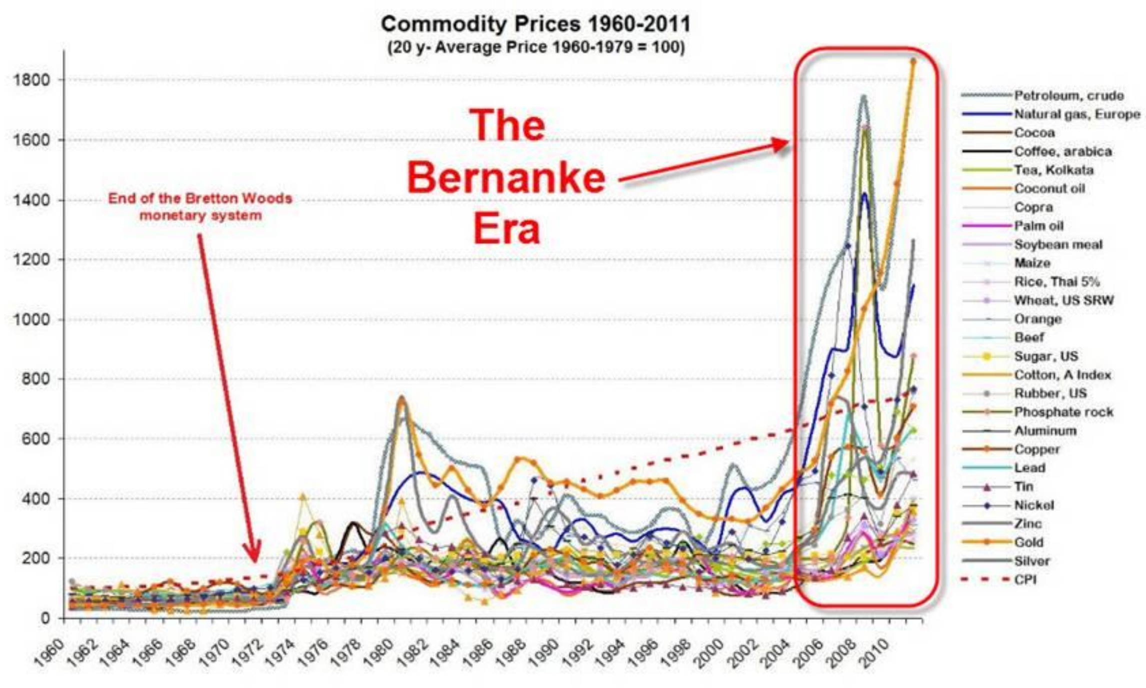
Of note in the above table are the declines in both gold and silver over the first half of this calendar year. These declines have led to increasingly bearish commentaries by many analysts, which have been reported in the mainstream media.

These reports have discouraged investor interest in the precious metals, with the result that sentiment in the precious metals is at low ebb, which of course is bullish. The principle of contrary opinion states that if everyone is bearish, there is no one left to sell, meaning that the market is due for a reversal of trend.

Regardless of the merits of this trading principle, it is a basic axiom that price movements of assets are always in the end driven by fundamental factors. In this regard, nothing has changed for the precious metals as far as I can discern. Their outlook remains very bullish. To illustrate this point, I present the following charts.

This first chart is from zerohedge.com, and it clearly shows the rise in commodity prices in recent years – which are labeled as "The Bernanke Era", after the present chairman of the Federal Reserve. This chart is noteworthy for two reasons.

First, it clearly illustrates the price inflation of the 1970s once the final remnants of the gold standard were abandoned and thereafter, the relative price stability that occurred until the early 2000s. Second, while commodity prices began to trend upward in the early part of this century, in recent years they have been accelerating across the board.



Source: World Bank Commodity Price Data (Pink Sheet)

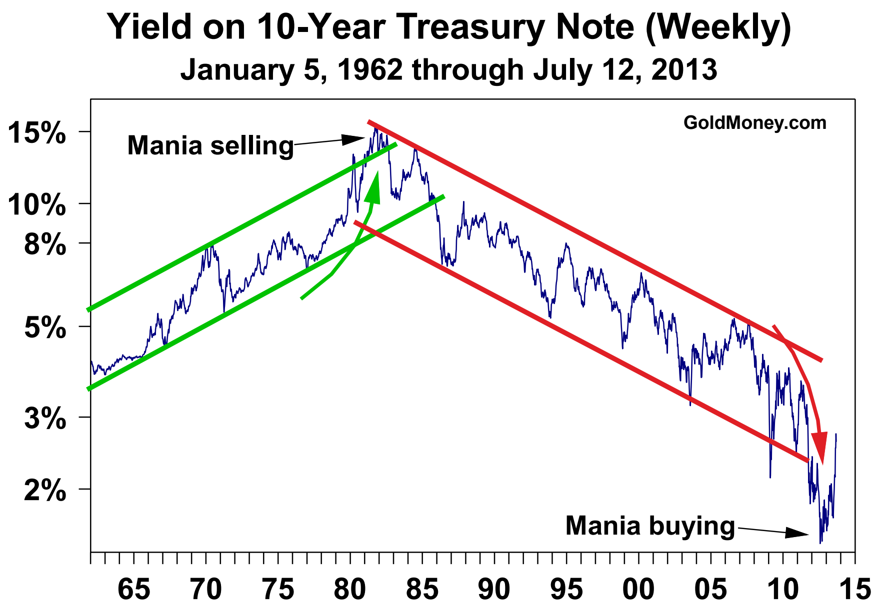
When commodity prices rise, the inflationary impact on the general price level is felt eventually. Yet despite several years of rising commodity prices, the US federal government reports that its Consumer Price Index remains subdued. The reason for this contradiction is simple. The CPI is not an accurate measure of the cost of living.

As explained by John Williams on his excellent website ShadowStats.com, the "Consumer Price Index has been reconfigured since [the] early-1980s so as to understate inflation versus common experience." These changes are in effect political gimmicks that make inflation look better than it really is, but they have a deleterious impact. For example, the CPI is used to make annual cost-of-living adjustments to Social Security and other federal programs. Because the CPI understates inflation, these annual adjustments are less than required to enable Social Security recipients to maintain the same purchasing power of their benefit year after year.

Though the cost of living continues to rise, as evidenced most clearly by the rise in crude oil prices to over $100 per barrel, Mr Bernanke continues to claim that inflation is low and stable. In contrast, ShadowStats reports the inflation rate at 9.7%. By relying upon the federal government's CPI, Mr Bernanke understates – presumably willfully – the true rate at which the dollar is losing purchasing power.

I have included below a wordle of Mr. Bernanke's latest speech. This 'word cloud' gives greater prominence to words that appeared more frequently, and is useful to see what was or what was not highlighted in his speech.

The words *federal*, *reserve* and *policy* stand out, which is to be expected in a speech from a central planner, as are the words *monetary* and *financial*. Far less prominent is *inflation*, but the words *interest* and *rates* are hardly mentioned, which I find noteworthy in view of recent developments that are clearly illustrated in the following chart.

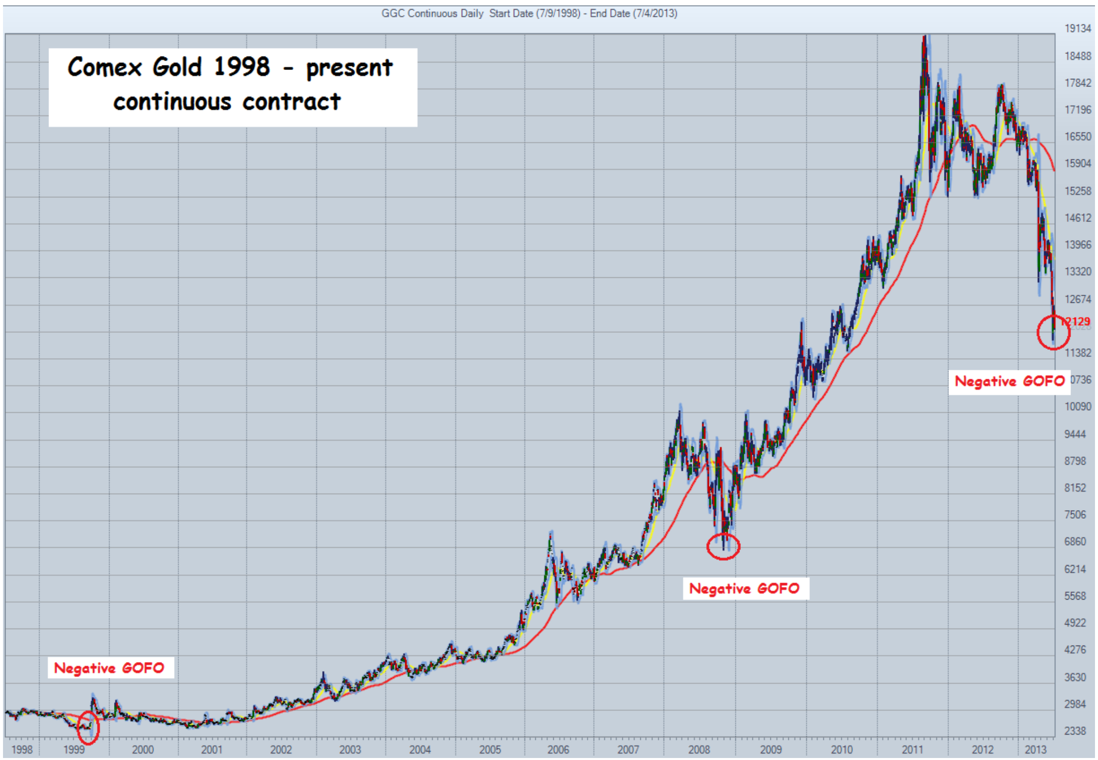


US dollar interest rates are rising, and it appears from the above chart that the multi-decade bull market in US government debt instruments (i.e., falling interest rates mean higher prices) has ended. The mania selling of government paper during the high inflation years more than three decades ago when then Fed chairman Paul Volcker raised interest rates to save the dollar saw its mirror image last year with mania buying, led by the Federal Reserve's "quantitative easing" program.

This trend in nominal interest rates is worth watching, but what really matters of course is the real rate of interest, i.e., interest rates adjusted for inflation. To restore confidence in the dollar, Mr Volcker needed to raise real interest rates to a phenomenally high 6% (the rate of inflation less the federal funds rate at which banks borrow).

If we use inflation calculated by ShadowStats, real interest rates are today negative by several percentage points. In other words, if you deposit $100 in a bank account today, in one year the account will have grown to, say, $101 because of the interest income earned. But your purchasing power will have shrunk to less than $92 when measured in today's dollars.

Negative real interest rates mean that the dollar is being debased. This erosion of the dollar's purchasing power is of course very bullish for gold, which brings me to my last chart. It was prepared by Dave Kranzler and posted on SeekingAlpha.com. It presents the gold price since 1998 and highlights the three instances since then when the gold forward rate (GOFO) turned negative. The first two marked important lows and key turning points in the gold price, which is an outcome that I expect to be repeated now that GOFO is has again turned negative.



Because it is money, gold has an interest rate at which it is borrowed and loaned, so like national currencies, gold has a forward rate that reflects its price in the future, which is based on its interest rates. Gold's interest rate, however, is unique. In a market unfettered by government intervention, it is the lowest interest rate of all moneys, which results from the fact that interest rates are one measure of the inflation risk that comes from holding money.

All currencies are presently being debased as a result of central bank 'money printing' because their supply is being increased more rapidly than the demand for those currencies. The Indian rupee and South African rand, for example, are being debased in this way more rapidly by their respective government's policy than the Swiss franc or euro are being debased. So the rupee and rand have higher interest rates than the franc and euro.

In contrast to national currencies, however, physical gold cannot be created by bookkeeping entries – the so-called "printing press". Gold can only be inflated by excessive mining (excluding for the purposes of this analysis the influence from derivative instruments like futures contracts and options that are issued on the promise to deliver physical gold at some future date). As I explain in *The Aboveground Gold Stock: Its Importance and Its Size*, a monograph published last year by the GoldMoney Foundation, the aboveground stock of gold grows consistently by 1.8% per annum, so excessive mining does not occur.

In recent years, interest rates for the US dollar and other major national currencies have been managed by ongoing central bank interventions, with the result that their short-term rates are near zero. If gold's interest rates were not also managed in order to keep them lower than US dollar rates of the same tenor, GOFO would turn negative, meaning that gold would be in backwardation, i.e., its future price would be lower than its spot price.

Without getting into all the complexities of backwardation, one basic point needs to be emphasized. When GOFO is negative so that backwardation appears, it implies that people owning physical gold prefer to hold metal rather than a national currency, which obviously is something that every central banker wants to avoid at all costs. Their existence depends upon keeping people caught within a national currency web. Consequently, backwardations are indeed rare, as the above chart shows, but they are also short-lived. They are reversed by rising gold prices, which induce some owners of physical metal to sell and hold a national currency instead.

The current backwardation in gold implies that too low a price has been reached. As occurred with other backwardations, the gold price is therefore likely to rise from here.

The underlying fundamental reason for a higher gold price remains unchanged. The interrelated bank insolvency and sovereign debt crises that have troubled the world economy since the collapse of Lehman Brothers in September 2008 remain unsolved, and central planners are debasing national currencies rather than seeking any meaningful solution. The right solution would of course mean returning gold to its rightful and traditional role as the preeminent money at center of global commerce, a position it held for some 5,000 years until just four decades ago.

I continue to expect that the right solution will be implemented eventually, and the reason is simple. Humankind chose gold as money in pre-history and used it as money for 5,000 years because of its unique attributes, and these have not been lost or destroyed. They have simply been ignored or forgotten, but fortunately are being re-discovered.

It has been my long held view that the present monetary system would blow-up sometime within the 2013-2015 time frame. We are now six months into this period, and while the fragilities of the present system are all too apparent, the central planners have managed to keep the system going. Nevertheless, the burden of debt and the insolvency of many banks and governments mean that the monetary system as it presently operates is unsustainable.

Whether the system crashes violently or stair-steps slowly into oblivion cannot be predicted. It is my view, however, that governments and the national currencies they are mismanaging are on a well-worn path taken many times over the ages. It is a path that ends with hyperinflation, so I remain steadfastly bullish on the precious metals. Their full potential will be reached when the Fiat Currency Bubble I explained in the last annual letter finally pops.

Key Financial Metrics (for each fiscal year ending 31 March)

	2013	2012	2011	2010	2009
Revenue	£413,495,948	£872,982,656	£515,645,654	£333,019,563	£293,838,237
Gross profit	£10,568,346	£18,118,241	£11,304,968	£6,714,631	£5,651,448
After-tax operating profit	£721,178	£8,754,073	£5,921,486	£3,018,176	£3,003,676
Margin	6.8%	48.3%	52.4%	44.9%	53.1%
Dividend	n/a	£1,612,420	£2,009,340	£1,498,644	n/a
Shareholder equity	£25,430,417	£26,244,486	£20,399,350	£12,016,875	£7,215,047
Cash & equivalent	£24,825,692	£26,071,256	£21,646,517	£12,201,571	£7,240,551
Customers	22,728	22,063	18,038	13,882	11,382
Customer assets	£1,307,521,396	£1,294,405,182	£1,124,034,443	£608,270,970	£428,750,609

Budgets & Operating Expenses

Every year the management team prepares and the Board reviews and approves at its March meeting a detailed operating budget for the year ahead. Monthly management accounts are prepared in order to compare actual results to budget, which the directors review at their quarterly meetings.

As it became apparent early in this fiscal year that revenue was not meeting expectations, efforts were made to control operating expenses. These efforts were successful because actual operating expenses were £9.7 million compared to the £12.0 million budget, and only 4.8% above the previous year, meaning that they increased more or less in line with inflation.

Loss on Precious Metals & National Currencies Owned

The company incurred a -£726,239 loss on the precious metals and a £278,141 gain on the foreign currencies it owns for a net loss of -£448,098, which compares to a -£1.4 million loss on these assets the year before. The loss in the precious metals arose from declines in the gold and silver price from the last fiscal year.

As I have noted in previous letters, all policies regarding foreign exchange and precious metal exposure are set by the Board and periodically reviewed by it. The Board also regularly reviews the foreign exchange and precious metal positions held by the company.

It is not the policy of the company to speculate in currencies or precious metals by taking positions based on reviews or assessments of expected price movements. Nevertheless, the company is exposed to the risk of changes in foreign currency exchange rates and metal prices because it holds various currencies in addition to gold and silver (and to a much lesser extent, platinum and palladium) for treasury and operating purposes. Market risk arises on these assets because the rate of exchange of these currencies and the market price of these metals fluctuate due to factors specific to a metal, a currency, or other factors.

The company's metal and currency balances are managed on a daily basis, and decisions to buy/sell metals and currencies are dependent upon customer demand and order flow. The aim is to keep currency balances and metal holdings in line with the Board's policy.

To the extent that the company owns assets not denominated in British pounds, our reference currency, there will be FX gains or losses on fluctuations in its rate of exchange. Generally, about 95% of the assets of the company are not denominated in British pounds. These assets are principally precious metals and several national currencies used by customers, but mainly US dollars and euros. As of 31 March 2013, 5.2% of the company’s assets were denominated in British pounds.

As noted above, precious metal prices remain in a long-term bull market, so it is quite reasonable to expect that gold and silver prices will continue to rise over time. Consequently, the best interests of shareholders are served by following the same basic policy the Board implemented when we launched in 2001. That policy is to not hedge market risk, nor attempt to speculate on short-term price fluctuations.

The way to profit in a long-term bull market is to continue accumulating precious metals as our capital grows, which has the added advantage of providing the needed inventory for higher customer order flows as our business expands. This policy also protects shareholder equity by minimizing the amount of capital on deposit in banks, which is a strategy that has become more important after the banking collapse in Cyprus earlier this year.

Protecting the Company’s Capital

Depositors in Cypriot banks were subject to a bail-in, meaning that much of their money was lost or frozen when that country’s banks failed. Recently, the European Union and several countries have changed their regulatory framework to introduce bail-ins as a policy tool for bank failures. A bail-in puts at risk that portion of the company’s capital on deposit in banks.

Up until two years ago, the amount of national currency owned by the company was set as a percentage of total assets. Thus, the currency position rose or fell in line with increases or decreases in the company’s assets.

This policy was changed as our capital base grew because it was determined that only about £7 million of currency was needed for working capital purposes. Additionally, this new policy would limit our exposure to a decline in precious metal prices because the £7 million position would be maintained, regardless what happened to the price of gold and silver.

As of 31 March 2013, the company held £6,606,362 in currency balances deposited in banks (£6,419,044 at the previous year end), mainly in Jersey and the UK. Because these deposits are greater than insured limits, this money is at risk should the bank fail and the government impose a Cyprus-type bail-in.

This risk is well recognized by the board, which has asked the management team to come up with solutions to mitigate the risk. Some steps have already been taken, for example, by opening new accounts in order to spread the risk among more banks. However, more solutions are needed, and finding them will remain an important point of focus.

Fortunately, all but approximately £7 million of the company's capital is held in physical precious metals. Thus, the large majority of the company's capital is safe and not subject to the risk of a bail-in.

Other Operating Results

We received four exception-free ISAE 3402 Type 2 reports. We have achieved exception-free reports since initiating this activity, now in its tenth year. This accomplishment stands as reliable testimony to GoldMoney's governance, controls and operational excellence.

Growth of the Customer Base

The growth in the number of customers with metal or currency in their Holding dropped below trend last year. The increase was only 3.0%, well below the more than 20% annual increase achieved in each of the previous five years.

The number of new Holdings increased 8.4% from the previous year, which does show that the company continues to expand its customer base. However, the number of Holdings with metal or currency in them dropped to 51.7% of total Holdings from 54.2% the previous year.

These results reflect the drop in buying interest that is a consequence of the subdued market conditions that I have already discussed, and I do not believe that they lead to any other conclusion. However, this trend needs to be watched to see if growth resumes to past levels once the precious metals resume their uptrend. If not, below trend growth may be indicating an erosion of our competitive position, which will need to be addressed.

Competition & Strategy

Shareholders will recall that in January 2012 we stopped the metal payment capability for customers in all countries except Jersey, primarily as a result of a growing and uncertain regulatory burden. Foreign exchange conversions were also stopped for the same reasons.

As a consequence, we no longer benefit from these services that have in the past differentiated us from our competitors, with the result that our product had become "commoditized", which has implications for pricing and more generally, for our business model.

- We have allowed ourselves to move ever further into what already was a commoditized market, namely, the buying/selling of bullion, or what I call the "coin shop" business. This change of direction away from our initial vision was both intentional – selling bullion is profitable – and unintentional, mainly as a result of our response to regulatory hurdles.
- Our initial vision was to re-establish gold's role as currency, and more generally, to provide gold-centric financial services. By eliminating payments in all countries except Jersey, we drastically reduced the ability to fulfill this initial vision, which thus moved us further into the commoditized area. Similarly, ending foreign exchange conversions had the same result. Our differentiation from others has largely eroded.

- Thus, our current pricing is likely leading to the erosion of our competitive position. Ignoring the impact of adverse market conditions, our pricing was not set for a coin shop business model. Rather, it was established for a superior (safe, convenient) financial services model, the foundational principle of which was providing a safe place for one's money for which customers would be willing to pay a premium, particularly when delivered with exceptional service. By achieving this goal, the aim was to establish customer loyalty and then broaden our products and services over time to increase our profit per customer. To the extent that we have broadened our products and services, they have moved us even further into the coin shop model and away from our original vision.

We clearly now need to take those steps that will enable us to fulfill our vision by continuing to build a gold-centric financial services model and thereby differentiate ourselves from competitors. The Board and the management team have been addressing this goal by researching new products and services, which I expect will result in some meaningful announcements to customers during the current fiscal year. These will strengthen our competitive advantages in a difficult operating environment in relation to the various GoldMoney 'wannabees' presently operating as well as BullionVault.com, which continues to be our single major competitor in the online buying/selling of gold and silver.

The Board and management recognize the long-term importance of payments in our strategic development plan. So the management team on an ongoing basis will continue to monitor our operating environment in order to look for alternatives to restart payments to as broad a group of customers as possible.

Trading in GoldMoney Shares

During the fiscal year, 63,114 Class-A shares traded, ranging from $4.00 to $2.50 per share in 8 different trades. There were also 8 trades for 197,207 Class-B shares, all of which traded at $4.00 per share.

All information regarding share trades is made available to shareholders on the secure server used to distribute company information. Presently there are 3.0 million shares on offer, with no bids at the moment. Most of these shares are being offered by current or past employees. Earlier this year 9,750,000 3-year share options granted to employees and key managers vested with a strike price of $0.75 per share.

Our Team

As I am always pleased to note, all achievements each year are the result of our dedicated and hard working team, both within GoldMoney as well as our vendors and suppliers. I cannot say enough good things about them because their dedication and hard work is unparalleled. To them we all owe our most sincere gratitude and thanks.

Annual General Meeting

The AGM will be held on 14 August 2013 on the Isle of Man at the office of Maitland Services Limited, the company's registrar. The meeting notice will soon be emailed to each shareholder along with the additional information required for each AGM. I encourage each shareholder to participate in this annual process by completing your proxy to vote for the Board's recommendations for this year's resolutions.

Forward Looking Summary

I am as confident as ever that the prospects for GoldMoney remain bright, just like those for the precious metals. But many circumstances have changed since our launch 12 years ago, with new obstacles that need to be overcome. These need to be addressed through creativity and hard work, and I am confident that our management team will rise enthusiastically to meet and master all challenges in what might yet prove to be another demanding year.

Yours sincerely,

James Turk

James Turk
Chairman