

# GOLDMONEY INC. SHAREHOLDER LETTER

## FISCAL YEAR 2020

Dear Fellow Shareholder,

Twenty-one years ago, James Turk, Eric Sprott, and Adam Fleming founded *Goldmoney.com* with a mission to provide investors around the world with online access to physical precious metals. In 2014, Josh Crumb and I founded *BitGold* with a similar mission. These two independent businesses founded by like-minded entrepreneurs merged into a singular entity *Goldmoney Inc.* in July 2015. Since then, I have led the group as Chief Executive Officer overseeing its development into one of the world's leading precious metal businesses offering physical bullion and coin sales, storage, trading, lending, and the manufacture and sale of jewelry.

In fiscal 2020, our group generated \$459 million in revenue, \$22.2 million in gross profit, and \$2.5 million in operating cash flow. This represents a significant increase from \$281.5 million in revenue, \$12.4 million in gross profit, and a negative \$4.4 million in operating cash flow in fiscal 2019. As of March 31, 2020, our group's tangible capital was \$114 million and off-balance sheet client assets stood at \$2.1 billion.

Fiscal year 2020 was the most important year in our company's history as our three business lines (storage, coins & bars, and jewelry) harmonized into producing significant gross profit and revenue growth. Below you will find a snapshot of our five-year activity:

(CAD \$000s)	2020	2019	2018	2017	2016
Revenue	458,873	281,544	340,072	331,885	138,168
Cost of sales	(447,996)	(275,288)	(333,642)	(326,297)	(135,238)
Gross margin	10,877	6,256	6,430	5,588	2,930
Fee Revenue	4,413	2,356	2,470	2,712	1,161
Interest income	1,926	1,812	1,173	343	183
Gross profit	22,265	12,382	9,737	9,057	4,282

The results we have achieved over a five year period demonstrate the historic earnings power of our group of businesses and, importantly, the operating leverage our businesses exhibit in a rising precious metal price environment. While there were some balance sheet movements which impacted our IFRS net income figure in fiscal 2020, we view these as non-recurring and accounting related. For management, the above snapshot provides the most accurate representation of our business results, however, we implore our shareholders to complement this snapshot with a full reading of our financial statements filed on Sedar.

On every important operational metric, our group is performing exceptionally. We have worked hard to get here, guided by our confidence in the significant long-term potential for our diversified group of businesses. Following years of navigating business and regulatory challenges, incubating growth divisions in new industries, and experimenting with various ideas, we now find ourselves in a privileged position of harvesting rather than planting. It is still difficult to estimate just how rich these harvests will be, but the metrics listed above provide the first insight into the kind of economic potential which is intrinsic to our group of businesses. Consequently, our focus now shifts into maximizing the harvests and unlocking that economic potential.

As we are now in our fifth year, the time has come to review our general philosophy and communicate our long-term strategy to our clients, shareholders, counterparties and others interested in our goals.

## ***Our General Philosophy***

The original spark which led to the creation of our group was the passion shared by our founders for the efficacy of precious metals to measure and to reward human cooperation. That is to say, precious metals anchor monetary systems and thus preserve the purchasing power of savers relative to the goods and services they need to consume.

Over the past half-century, our political leaders, in pursuit of changing ideologies and economic alchemy, have undermined three critical social pillars upon which prosperous cooperation between self-interested individuals has been established for thousands of years:

- Elimination of sound money – We no longer have an unchanging measure and reward (money) for the investment of our personal time in our efforts to cooperate with others. Consequently, the exchanges of goods and services between individuals and households cannot achieve lasting satisfaction with debased money. Moreover, with constant debasement of the measure and reward, whatever temporary satisfaction exists at the time of an exchange is eventually withered away.
- Elimination of merit and rewarding failure – The institutional debasement of patience, toil, and merit exhibited in past acts of cooperation as the default resolution to every new crisis has led to an irreversible loss of personal time and savings for most households. Conversely, this same debasement that hurts the majority benefits a small segment of society which is bailed out with additional time; a reset which permits only this segment to avoid failure. This has led to unprecedented inequality and the wholesale marginalization of the western middle and working classes.
- Elimination of risk and resilience - The socialization of failure in the private lives of certain individuals as well as select companies chosen by the government, which ultimately increases dependence upon a central authority in order to determine all aspects of our culture from the focus of our attention, to our leisure, to our orientation toward a common good.

While we have written exhaustively about what has happened in the past when these social pillars were eliminated, we now find ourselves living through a period in history where the only rational choice is to act and respond accordingly.

Over the past two years, I, along with our Board of Directors, have carefully considered how best to act in alignment with our primary goal: *to build a lasting business which safeguards the wealth of our shareholders, stakeholders, and clients while also demonstrating the merits of precious metals in grounding and fostering human cooperation.* These reflections and deliberations have now resulted in a revised strategy that we believe sets a firm foundation for our group as we navigate a volatile economic and political future.

## ***Our Long-Term Strategy***

In pursuit of our primary objective (safeguarding the invested capital of our shareholders and the wealth of our clients), we now feel a greater sense of urgency to eliminate all forms of counterparty risk. Consequently, we will be taking the following actions:

1. We will maintain only a limited amount of operating cash in the form of fiat currency which is no more than one year of operating expenditures.
2. The rest of our balance sheet assets, with the exception of our property investments, will be invested into precious metal bullion with the following allocation: 70% Gold, 20% Silver, 5% Platinum, 5% Palladium.
3. We will no longer lend fiat currency to generate interest income. We will consider lending a precious metal, but only if collateralized by another precious metal.

4. All operating cash flow produced going forward will be used to purchase precious metals at the weighting mentioned above.

The immediate effect resulting from these actions will be noticeable while, in my personal view, the long-term impact will be profound. You will recall my previous writings on the importance of measuring our company's performance in accordance with a Return on Metal Weight (ROMW) metric. While this has been a good first step, our strategy now makes the process far easier for investors to follow: a share of Goldmoney Inc. will simply be the value of its precious metals plus an annual yield from operating cash flow measured on our tangible precious metal value.

Another implication of this revised strategy will be the limiting of capital expenditures going forward. We will also defer any dividends in preference to share buybacks because our view is that, at this moment, the best return on metal weight will be achieved by accumulating physical precious metals outside of the banking system while opportunistically reducing our share count.

We are building a moat around Goldmoney Inc. shares that will disconnect our activity as much as possible from the risks in the global financial system. This foundation will transform Goldmoney into an island of resiliency and stability in the coming years of increasing financial storms. Shareholders will begin to see a picture of a company which acts as a true bullion bank: a gold 'bank' which requires no banking license because we do not accept deposits, whose activities are fully funded from equity capital, and which eschews fractional reserve lending or fiat money creation. Goldmoney Inc. is a gold bank with a 20-year-old brand and tens of thousands of clients around the world who entrust us to protect their hard-earned wealth.

### ***The Investment Case for Goldmoney Inc.***

The general philosophy, strategy, and actions I have thus far enumerated lead to the part of this shareholder letter where I would like to reframe the investment case for Goldmoney Inc.

Our decision to change how we think and act in relation to the risks we see was made on the basis of deep reflection on the state of our global financial system. We feel strongly that the days of growth both in population and even in nominal GDP will not return anytime soon. We equally feel that the geopolitical landscape is pregnant with unpredictable events that may change the political balance of power for decades to come. Finally, we feel that gold mining and other business models that presently attract the majority of investment flows into the gold industry carry risks which, in our view, have not been sufficiently handicapped by investors given our expectations for the future. For example, we believe it will become common for precious metal mines to be seized by governments, nationalized, or limited in their profitability through windfall profit taxes as the gold price rises in the future.

Somewhat sadly, we have also come to the realization that a return to any iteration of a gold monetary standard will not be implemented any time soon, whether by public or private initiative. There remains too much confusion and, if anything, we see a new chapter of experimentation propelled by cryptocurrencies and repackaged alchemical economic theories such as MMT and UBI which are still in their early stages of being aggressively pursued. This recognition leads us to an enhanced appreciation for Gresham's Law, with yet more bad money driving out gold. As a result, we will continue to avoid the use of gold through payments and debit cards. While our technology is built and ready, the regulatory environment is going the other way, and any participants that attempt to profit from facilitating payments will discover the long-term liabilities and inherent costs regardless of their approach.

In all of this, what we believe will work best is what has always worked best: owning physical precious metals and, when possible, growing that position prudently through time. We therefore see our business and our group as an extension of our client activity. What they do with their wealth is what we will be doing with our capital, but with the added benefit of generating cashflow from the products and services we provide that can compound the weight of our precious metal position over time. We will earn gold, save in gold, and spend in fiat, and we advise our shareholders and stakeholders to do the same with the fiat currency they earn.

In this way we are positioning Goldmoney Inc. to attract investors who understand and value our shares as if it were an ETF, but one which owns physical precious metals and operates a business that generates cash to naturally grow its precious metal position without the dilution that occurs over time in an ETF.

At the time of writing (June 11 2020), Goldmoney Inc. has circa \$122 million of tangible capital on its balance sheet of which \$39.7 million is in precious metals. Our current off-balance sheet client assets total \$2.3 billion. Our precious metals position at the time of writing is as follows:

394,171 Grams of Gold.....	\$30.3 million
215, 277 Ounces of Silver.....	\$5.3 million
51,983 Grams of Platinum.....	\$1.9 million
2,723 Grams of Palladium.....	\$0.2 million
Gold and Silver Coin Inventory.....	\$2.0 million

By the end of 2020, we see that figure rising to \$50 million exclusive of any gains in precious metal prices. At our current annual run rate, we expect in time to produce an additional 5,000 gold ounces from our businesses to grow that position even further. From these metrics, investors can begin to model what a 5, 10, and 20-year projection may result in depending on the rate of national currency debasement, that is to say the fiat money value of precious metals. We estimate that even at an unlikely gold price of \$750 per ounce, our business would still grow its precious metal weight position by 1-2% per year.

Accordingly, the actions we are taking should place Goldmoney shares in a core position for any precious metal investor. Institutions should own our shares and value them just as they do shares of gold royalty or mining companies. Those seeking exposures to ETF's should also see the benefits of owning an ETF-like vehicle which organically grows its metal per share over time. Lastly, speculators should embrace the ability to discover the price of a weight of gold that is levered to fiat currency debasement through nominal revaluation and yield. I am confident that a growing number of investors will imminently begin to discover Goldmoney and eventually own our shares. To that end, we will be working to enable options trading on Goldmoney Inc. shares to deepen their liquidity.

It has been my great pleasure to be at the helm of this wonderful business, and I would like to extend my sincerest gratitude to all of our clients, our employees, our shareholders, and our counterparties. Thank you for your trust. We will endeavor to continue delivering on that trust in the years to come.

Sincerely,

Roy Sebag  
Founder and Chief Executive Officer  
Goldmoney Inc.

### **Forward-Looking Statements**

This shareholder letter contains or refers to certain forward-looking information often be identified by forwardlooking words such as “anticipate”, “believe”, “expect”, “plan”, “intend”, “estimate”, “may”, “potential” and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All information other than information regarding historical fact, which addresses activities, events or developments that the Goldmoney Inc. (the “Company”) believes, expects or anticipates will or may occur in the future, is forward looking information. Forward-looking information does not constitute historical fact but reflects the current expectations the Company regarding future results or events based on information that is currently available. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking information will not occur. Such forward-looking information in this shareholder letter speak only as of the date hereof.

Forward-looking information in this shareholder letter includes, but is not limited to, statements with respect to the benefits of changes in strategy and the particular strategy which is being adopted or is being proposed and, growth of the Company's business, expected results of operations, and the market for the Company's products and services. This forward-looking information is based on reasonable assumptions and estimates of management of the Company at the time it was made, and involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Such factors include, among others: the ability to implement and manage strategic changes; and competitive conditions; volatility of precious metals prices, precious metals trading risks and the risks in holding precious metals as opposed to holding cash or investing in other asset categories; public interest in precious metals investment; and those risks set out in the Company's most recently filed annual information form, available on SEDAR. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to update or revise any forward-looking information, except as required by law. No stock exchange, regulation services provider, securities commission or other regulatory authority has approved or disapproved the information contained in this shareholder letter.