

FAC No.: IA-[text deleted]

Gold & Silver Reserve, Inc.  
Attn: Carol R. Van Cleef  
Patton Boggs L.L.P.  
2550 M Street, N.W.  
Washington, D.C. 20037

### **PENALTY NOTICE**

Dear Ms. Van Cleef:

A Prepenalty Notice ("Notice") dated June 6, 2007, was issued by the Office of Foreign Assets Control ("OFAC") to Gold & Silver Reserve, Inc. ("GSR") due to GSR's exportation of financial services in the form of 56,739 "e-currency" accounts through its website for persons located in Iran. Inasmuch as no license or approval was issued by OFAC for these transactions, they violated the Iranian Transactions Regulations (the "ITR"), 31 C.F.R. Part 560, promulgated pursuant to the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-1706 ("IEEPA"). See § 560.204 of the ITR.

The Prepenalty Notice proposed a penalty in the amount of \$5,000,000, and advised GSR of the right to make a written presentation to OFAC setting forth reasons why a penalty should not be imposed, or if imposed, why it should be less than that proposed.<sup>1</sup> Such written response was required to be made within sixty days of the mailing of the Prepenalty Notice.

GSR responded to OFAC, by letter dated September 5, 2007, after OFAC granted GSR's request for an extension to respond. In its letter, GSR proposed to settle OFAC's allegations of violations with a civil monetary penalty although the terms and conditions proposed by GSR were unacceptable to OFAC and subsequent settlement negotiations were likewise unsuccessful.

Subsequent to the issuance of the Prepenalty Notice, GSR (along with E-Gold, Ltd.) was sentenced to a criminal forfeiture in the form of a money judgment of \$1,750,000 and a fine of \$300,000.

After a thorough review of the facts and circumstances pertaining to these violations, OFAC has determined that GSR has violated the ITR and that a reduction from the proposed penalty amount, set forth in the Prepenalty Notice dated June 6, 2007, is warranted to account for the payments GSR is to make pursuant to other U.S. government enforcement action.

Accordingly, a civil penalty in the amount of \$2,950,000.00 is hereby imposed upon GSR pursuant to 31 C.F.R. § 560.705.

A check payable to the "**U.S. Treasury**" in the amount of \$2,950,000.00 and referencing the above FAC No. should be sent, within 30 days of the mailing of this Penalty Notice, to the

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<sup>1</sup> Subsequent to issuance of the Prepenalty Notice, Congress passed and the President signed the International Emergency Economic Powers Enhancement Act, which significantly increased the maximum penalties applicable to violations of IEEPA. Pursuant to OFAC's November 27, 2007 Interim Policy – Civil Penalties, this Penalty Notice is being issued in accordance with OFAC's Economic Sanctions Enforcement Guidelines in force at the time the Prepenalty Notice was issued.

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Department of the Treasury, Financial Management Division, (Attn: Brad Keiser, Met Square, 6<sup>th</sup> Floor), 1500 Pennsylvania Avenue, N.W., Washington, D.C. 20220. Interest, administrative charges, and late fees will commence to accrue after 30 days. Pursuant to 31 U.S.C. § 3717, interest at an annual rate of 5% and an administrative charge of \$12.00 will be added if the amount is not paid by the due date. Should the amount not be paid within ninety (90) days, an additional late charge of 6% will be added. Alternatively, GSR may arrange with the Office of Financial Management of the Department of the Treasury for installment payment. Such an arrangement must be completed no later than 30 days after the date of service of this Penalty Notice. Failure to pay in full or make arrangements with the Office of Financial Management will result in interest, administrative charges, and late fees beginning to accrue 30 days after the date of service of this Penalty Notice.

Please note that 31 C.F.R. § 560.706 provides that this matter may be referred either for administrative collection measures or to the United States Department of Justice for appropriate action to recover the penalty in a civil suit in Federal District Court if payment is not made within thirty days of the date of this Penalty Notice.

**Please further note that 31 U.S.C. § 7701 requires that a person assessed a penalty by a Federal agency furnish a Taxpayer Identification/Social Security Number and also requires the agency to disclose that we intend to use such number for the purpose of collecting and reporting on any delinquent penalty amount in the event of a failure to pay the penalty imposed.**

Sincerely,

[signature]

Adam Szubin  
Director  
Office of Foreign Assets Control