

**BMG GOLD BULLIONFUND**

# **SEMI-ANNUAL REPORT**

**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016**



# **BMG Gold BullionFund**

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## **Semi-Annual Financial Statements**

For the six-month period ended June 30, 2016 (unaudited)



**BULLION  
MANAGEMENT  
SERVICES INC.**

A BMG Company

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## STATEMENTS OF FINANCIAL POSITION

As at June 30, 2016 and December 31, 2015

(Unaudited)

	2016 \$	2015 \$
<b>ASSETS</b>		
Current assets		
Cash	616,310	531,163
Investments in gold bullion [Average cost \$104,144,437; December 2015 - \$99,196,130]	125,114,057	103,770,645
Subscriptions receivable	1,521,737	25,471
<b>Total assets</b>	<b>127,252,104</b>	<b>104,327,279</b>
<b>LIABILITIES</b>		
Current liabilities		
Management fees payable	223,319	204,211
Redemptions payable	78,488	40,705
Due to broker	1,200,000	-
Accounts payable and accrued liabilities	133,223	98,976
<b>Total liabilities (excluding net assets attributable to holders of redeemable units)</b>	<b>1,635,030</b>	<b>343,892</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>125,617,074</b>	<b>103,983,387</b>
<b>Net assets attributable to holders of redeemable units per class (Note 3)</b>		
Class A	102,241,540	88,682,987
Class B3	140,200	121,815
Class C3	1,009,620	1,371,395
Class F	13,938,845	6,213,744
Class G09	6,953,740	6,373,381
Class S1	1,272,447	1,158,340
Class S2	60,682	61,725
	<b>125,617,074</b>	<b>103,983,387</b>

*Net asset value attributable to holders of redeemable units per class is disclosed in Note 3.*

*See accompanying notes.*

On behalf of the Board of Directors of Bullion Management Services Inc.,  
Trustee and Manager of BMG Gold BullionFund



Nick Barisheff  
Director



Hema Anganu  
Director

## STATEMENTS OF COMPREHENSIVE INCOME

For the six-month periods ended June 30

(Unaudited)

	2016 \$	2015 \$
<b>INVESTMENT INCOME</b>		
Net unrealized gains on investments in gold bullion	16,395,105	5,112,455
Net realized gains on investments in gold bullion	363,712	200,337
Foreign exchange gains/(losses)	(6,476)	12,787
Early redemption fees	2,631	994
Other	24	393
<b>Total investment income</b>	<b>16,754,996</b>	<b>5,326,966</b>
<b>EXPENSES</b>		
Management fees (Note 4)	1,197,876	1,139,213
Security holder reporting costs	171,010	164,700
Bullion storage fees	43,133	67,896
Services tax	162,332	162,283
Other administrative expenses	14,210	14,214
Legal fees	7,462	6,697
Audit fees	13,650	13,394
Filing fees	25,016	25,015
Independent Review Committee fees	5,908	1,276
<b>Total expenses</b>	<b>1,640,597</b>	<b>1,594,688</b>
Expenses absorbed by Manager (Note 4)	-	(26,648)
<b>Total expenses after absorption</b>	<b>1,640,597</b>	<b>1,568,040</b>
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>15,114,399</b>	<b>3,758,926</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per class (note 3)</b>		
Class A	12,766,698	3,032,348
Class B3	18,385	(1,841)
Class C3	200,567	67,026
Class F	1,044,987	129,813
Class G01	-	192,027
Class G05	-	3,943
Class G09	898,527	266,014
Class S1	176,392	64,881
Class S2	8,843	4,715
	<b>15,114,399</b>	<b>3,758,926</b>

See accompanying notes.

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the six-month periods ended June 30  
(Unaudited)

	2016 \$	2015 \$
Net assets attributable to holders of redeemable units, beginning of period	103,983,387	103,161,873
Issue of redeemable units	14,684,093	6,560,759
Redemption of redeemable units	(8,164,805)	(7,860,529)
Increase in net assets attributable to holders of redeemable units	15,114,399	3,758,926
<b>Net assets attributable to holders of redeemable units, end of period</b>	<b>125,617,074</b>	<b>105,621,029</b>

See accompanying notes.

## STATEMENTS OF CASH FLOWS

For the six-month periods ended June 30  
(Unaudited)

	2016 \$	2015 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Increase in net assets attributable to holders of redeemable units	15,114,399	3,758,926
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities		
Purchase of investments in gold bullion	(8,062,143)	(2,098,771)
Proceeds from sales of investments in gold bullion	3,477,548	4,486,480
Net realized gains on investments in gold bullion	(363,712)	(200,337)
Net unrealized gains on investments in gold bullion	(16,395,105)	(5,112,455)
Net changes in non-cash operating balances:		
Increase in accounts receivable	-	(131,001)
Decrease in due from manager	-	66,763
Increase/(decrease) in management fees payable	19,108	(2,481)
Increase in due to broker	1,200,000	-
Increase/(decrease) in accounts payable and accrued liabilities	34,247	(21,780)
<b>Net cash provided by (used in) operating activities</b>	<b>(4,975,658)</b>	<b>745,344</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of redeemable units	14,684,093	6,560,759
Increase in subscriptions receivable	(1,496,266)	(25,205)
Amounts paid on redemption of redeemable units	(8,164,805)	(7,860,529)
Increase/(decrease) in redemptions payable	37,783	(7,433)
<b>Net cash provided by (used in) financing activities</b>	<b>5,060,805</b>	<b>(1,332,408)</b>
<b>Net increase/(decrease) in cash during the period</b>	<b>85,147</b>	<b>(587,064)</b>
<b>Cash, beginning of period</b>	<b>531,163</b>	<b>1,159,880</b>
<b>Cash, end of period</b>	<b>616,310</b>	<b>572,816</b>

See accompanying notes.

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2016

(Unaudited)

	Allocated ounces	Unallocated ounces	Total Fine ounces	Average Cost \$	Fair Value \$	Total %
Gold Bullion	71,299.806	1,641.950	72,941.756	104,144,437	125,114,057	99.5
Cash				616,152	616,310	0.5
<b>Total Investment</b>				<b>104,760,589</b>	<b>125,730,367</b>	<b>100.0</b>

The BMG Fund's assets are held pursuant to a custodial agreement with a major Canadian chartered bank (or subsidiary thereof) on an allocated, segregated basis.

The allocated gold bullion is recorded by refinery, exact weight in ounces and identification number.

The BMG Fund's gold bullion is free and clear of any lien or claim that the major Canadian chartered bank (or subsidiary thereof) may have, except where the claim arises from any unpaid costs.

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

### 1. Formation of the Fund

BMG Gold Bullion Fund (the "BMG Fund") was established under the laws of Ontario by a Master Declaration of Trust and Regulation each dated September 4, 2009, as amended. The address of the BMG Fund's registered office is: 280-60 Renfrew Drive, Markham, ON, L3R 0E1. Bullion Management Services Inc. (the "Manager") is the trustee and manager of the BMG Fund. The BMG Fund currently offers seven classes of units.

These financial statements pertain to Class A, Class B3, Class C3, Class F, Class G09, Class S1 and Class S2 units. The classes were first offered on the following dates:

Class A	September 4, 2009	Class G09	June 10, 2010
Class B3	March 27, 2015	Class S1	November 9, 2010
Class C3	March 12, 2014	Class S2	November 9, 2010
Class F	January 18, 2010		

Up to March 27, 2015, the BMG Fund also issued units for Class G01 and Class G05 (see Note 3, Reclassification of Certain Classes). All classes share the same attributes from a valuation perspective, except that they are subject to different management fee rates.

The BMG Fund invests only in gold bullion, with the objective of providing a secure, convenient, low-cost, medium-risk alternative for investors seeking to hold gold bullion for capital preservation, long-term appreciation, portfolio diversification and portfolio hedging purposes. The BMG Fund's fixed investment strategy avoids the need for a portfolio manager.

## NOTES TO FINANCIAL STATEMENTS (*continued*)

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(Unaudited)

### 2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### Basis of Preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The BMG Fund prepared these interim financial statements for the six-month period ended June 30, 2016 (and comparative results for the six-month period ended June 30, 2015) in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the annual financial statements contained in the BMG Fund’s 2015 Annual Report.

The interim financial statements were authorized for issue by the Board of Directors on August 11, 2016.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, and are presented in Canadian dollars, which is the BMG Fund’s functional and presentation currency.

#### Financial Instruments

##### (a) Classification

The BMG Fund classifies its investments in gold bullion at fair value through profit or loss.

This category has two subcategories: financial assets or financial liabilities held for trading; and financial assets or financial liabilities designated at fair value through profit or loss at inception.

##### i) *Financial assets and liabilities held for trading*

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together, and for which there is evidence of a recent actual pattern of short-term profit taking.

##### ii) *Financial assets and liabilities designated at fair value through profit or loss at inception*

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the BMG Fund’s documented investment strategy.

The BMG Fund classifies financial assets and financial liabilities other than its investments in gold bullion into the following categories:

- Financial assets at amortized cost and designated as loans and receivables: Cash and subscriptions receivable.
- Financial liabilities at amortized cost and designated as other financial liabilities: Accounts payable and accrued liabilities, due to broker, redemptions payable and management fees payable.



## NOTES TO FINANCIAL STATEMENTS *(continued)*

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(Unaudited)

### *(b) Recognition/derecognition*

Purchases and sales of investments in gold bullion are recognized on the trade date, the date on which the BMG Fund commits to purchase or sell the investment. For financial assets acquired, cost is the fair value of the consideration given, while for financial liabilities, cost is the fair value of the consideration received. Transaction costs for such instruments are recognized directly in the Statement of Comprehensive Income as incurred. Financial assets classified as loans and receivables are recognized on the day that they are transferred to the BMG Fund at fair value, plus transaction costs that are directly attributable to their acquisition or issue.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired, or the BMG Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities, other than those at fair value through profit or loss, are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition or issue. Financial liabilities arising from the redeemable units issued by the BMG Fund are presented at the redemption amount representing the investors' right to a residual interest in the BMG Fund's assets. Financial liabilities are not recognized unless one of the parties has performed its obligation.

Realized gains and losses on investments in gold bullion are recognized in the Statement of Comprehensive Income. Costs of investments in gold bullion are determined on an average cost basis.

### *(c) Subsequent measurement*

Subsequent to initial recognition, the BMG Fund measures all financial instruments classified at fair value through profit or loss at fair value, with changes in the fair value recognized in the Statement of Comprehensive Income. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments traded in active markets is based on their quoted market prices at the close of trading on the reporting date. The fair value of financial instruments that are not traded in an active market is determined using a valuation technique, or sourced from a reputable broker/counterparty.

### *(d) Fair value measurement*

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the BMG Fund has access at that date.

When the London market is open for trading, gold bullion is priced at fair value by using the internationally recognized price benchmark set by the London Bullion Market Association (LBMA), the LBMA Gold Price PM. Gold has a price fix generally set twice daily, and identified by an AM or PM suffix. COMEX closing prices will be used when the London market is not open. The difference between this official gold bullion price and the average cost is shown as "Net unrealized gains/(losses) on investments in gold bullion."

Effective March 20, 2015, the LBMA Gold Price replaced the previous London Fix price for gold, as the LBMA revised the operation and administration systems of its benchmarks.

The market values of investments denominated in foreign currencies are translated into Canadian dollars at the rates of exchange applicable on the relevant valuation date.

## NOTES TO FINANCIAL STATEMENTS *(continued)*

(Unaudited)

### *(e) Classification of fair value measurement*

IFRS 13 requires the BMG Fund to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:

Level 1	Unadjusted quoted prices in active markets
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices)
Level 3	Unobservable inputs

Fair value of investments in gold bullion is classified at Level 1 within the fair value hierarchy.

### **Income and Expense Recognition**

The BMG Fund follows the daily accrual method of recording investment income and expenses. Expenses specifically related to each class of units of the BMG Fund are charged directly to that class of units. Income, expenses and realized and unrealized gains (losses) are allocated to each class of the BMG Fund based on that class's pro-rated share of the total net assets of the BMG Fund.

### **Foreign Currency Translation**

The BMG Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates that transactions occur. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses are presented in the statements of comprehensive income.

### **Offsetting Financial Instruments**

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### **Impairment of Financial Assets**

The BMG Fund assesses on each reporting date whether a financial asset or group of financial assets measured at amortized cost is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's amortized cost and the present value of estimated future cash flows discounted using the asset's original effective interest rate. Impairment losses on assets measured at amortized cost are reversed in subsequent periods if the amount of the loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized.

### **Calculation of Per-Unit Net Asset Value ("NAV") Attributable to Holders of Redeemable Units**

The NAV of each class of units of the BMG Fund is calculated in Canadian dollars at 4:00 p.m. (EST) on each day that the Toronto Stock Exchange is open for trading.

The NAV per unit of each class of the BMG Fund that is used for subscriptions and redemptions is the same as the net assets attributable to holders of redeemable units per unit of that class that is used in these financial statements.

A separate NAV is calculated for each class of units of the BMG Fund by taking that class's proportionate share of the BMG Fund's assets less that class's proportionate share of the BMG Fund's common liabilities and deducting from this amount all liabilities that relate solely to that specific class. The NAV per unit for each class is determined by dividing the NAV of each class by the number of units of that class outstanding at the relevant valuation date.

## NOTES TO FINANCIAL STATEMENTS *(continued)*

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(Unaudited)

### Income Taxes

The BMG Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the BMG Fund's net income for tax purposes and sufficient capital gains realized in any period are required to be distributed to unitholders such that no tax is payable by the BMG Fund. As a result, the BMG Fund does not record income taxes. Since the BMG Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. Refer to Note 6 for unused losses.

### Increase (Decrease) in Per Unit Net Assets Attributable to Holders of Redeemable Units

Any increase (decrease) in per unit net assets attributed to holders of redeemable units represents the change in net assets attributable to holders of redeemable units of each class divided by the weighted average number of units of that class of the BMG Fund outstanding during the period (see Note 3).

### Critical Estimates and Judgments

In the application of the BMG Fund's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Board of Directors considers the currency of the primary economic environment in which the BMG Fund operates to be the Canadian dollar, as this is the currency that, in their opinion, most faithfully represents the economic effects of underlying transactions, events and conditions. Furthermore, the Canadian dollar is the currency in which the BMG Fund measures its performance and also issues and redeems its redeemable units.

### New Standards, Interpretations and Amendments Not Yet Adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the six months ended June 30, 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the BMG Fund, with the possible exception of IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 was issued by the International Accounting Standards Board ("IASB") on October 28, 2010, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach and is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The BMG Fund is currently evaluating the impact of IFRS 9 on its financial statements.

### 3. Redeemable Units

Each unit of each class of the BMG Fund represents an interest in the assets of that class of the BMG Fund. All units of a class of the BMG Fund generally have the same rights and privileges. Each unit of each class of the BMG Fund is entitled to one vote at any meeting of unitholders of the BMG Fund. Each unit of each class of the BMG Fund is also entitled, subject to any management fee distributions, to participate equally in any distributions by the BMG Fund. Fractional units of a class of the BMG Fund are proportionately entitled to all the same rights as other units of that class of the BMG Fund, except that they are non-voting. All units of each class of the BMG Fund are fully paid when issued, and are generally not transferable. Units of each class of the BMG Fund are redeemable at the option of the unitholder owning such units. The number of units of the BMG Fund that may be issued is unlimited. The units of each class of the BMG Fund are issued and redeemed at the NAV per unit of that class of the BMG Fund. There are no differences between the NAV per unit of each class of the BMG Fund and the Net Assets Attributable to Holders of Redeemable Units per unit of each class of the BMG Fund.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Unaudited)

Unitholder transactions during the six-month periods ended June 30:

	Class A		Class B3	
	2016	2015	2016	2015
Balance - beginning of period	18,673,326	18,990,314	12,590	-
Issued	1,292,614	1,008,235	-	-
Redeemed	(1,146,904)	(1,352,188)	-	-
Reclassified in/(out)	-	511,331	-	5,589
<b>Balance - end of period</b>	<b>18,819,036</b>	<b>19,157,692</b>	<b>12,590</b>	<b>5,589</b>
Average units outstanding	18,770,820	19,148,226	12,590	5,589

  

	Class C3		Class F	
	2016	2015	2016	2015
Balance - beginning of period	145,228	154,333	1,137,417	692,988
Issued	176	9,297	1,145,391	198,876
Redeemed	(52,705)	(18,438)	(64,721)	(56,647)
<b>Balance - end of period</b>	<b>92,699</b>	<b>145,192</b>	<b>2,218,087</b>	<b>835,217</b>
Average units outstanding	110,871	150,960	1,636,220	746,378

  

	Class G01		Class G05	
	2016	2015	2016	2015
Balance - beginning of period	-	264,762	-	6,639
Issued	-	2,402	-	-
Redeemed	-	(24,042)	-	-
Reclassified in/(out)	-	(243,122)	-	(6,639)
<b>Balance - end of period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Average units outstanding	-	259,939	-	6,639

  

	Class G09		Class S1	
	2016	2015	2016	2015
Balance - beginning of period	591,877	630,713	125,696	147,691
Issued	76,054	30,039	-	-
Redeemed	(106,822)	(26,857)	(6,192)	(18,995)
<b>Balance - end of period</b>	<b>561,109</b>	<b>633,895</b>	<b>119,504</b>	<b>128,696</b>
Average units outstanding	579,193	630,848	121,793	137,158

  

	Class S2	
	2016	2015
Balance - beginning of period	6,800	12,208
Issued	-	-
Redeemed	(1,000)	(1,267)
<b>Balance - end of period</b>	<b>5,800</b>	<b>10,941</b>
Average units outstanding	6,289	11,683

## NOTES TO FINANCIAL STATEMENTS (continued)

(Unaudited)

### Total net assets attributable to holders of redeemable units per class and per unit

For the six-month period ended June 30, 2016

	Net assets attributable to holders of redeemable units, beginning of period	Subscriptions	Redemptions	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period	Net assets attributable to holders of redeemable units per unit	Increase in net assets attributable to holders of redeemable units per unit
	\$	\$	\$	\$	\$	\$	\$
Class A	88,682,987	6,725,736	(5,933,881)	12,766,698	102,241,540	5.43	0.68
Class B3	121,815	-	-	18,385	140,200	11.14	1.46
Class C3	1,371,395	1,867	(564,209)	200,567	1,009,620	10.89	1.81
Class F	6,213,744	7,067,576	(387,462)	1,044,987	13,938,845	6.28	0.64
Class G09	6,373,381	888,914	(1,207,082)	898,527	6,953,740	12.39	1.55
Class S1	1,158,340	-	(62,285)	176,392	1,272,447	10.65	1.45
Class S2	61,725	-	(9,886)	8,843	60,682	10.46	1.41
<b>Total</b>	<b>103,983,387</b>	<b>14,684,093</b>	<b>(8,164,805)</b>	<b>15,114,399</b>	<b>125,617,074</b>	<b>N/A</b>	<b>N/A</b>

For the six-month period ended June 30, 2015

	Net assets attributable to holders of redeemable units, beginning of period	Subscriptions	Redemptions	Reclassified in/(out)	Increase/(decrease) in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period	Net assets attributable to holders of redeemable units per unit	Increase/(decrease) in net assets attributable to holders of redeemable units per unit
	\$	\$	\$	\$	\$	\$	\$	\$
Class A	87,595,961	5,000,942	(6,629,419)	2,534,012	3,032,348	91,533,844	4.78	0.16
Class B3	-	-	-	55,889	(1,841)	54,048	9.67	(0.33)
Class C3	1,392,035	90,889	(182,547)	-	67,026	1,367,403	9.42	0.44
Class F	3,635,630	1,111,809	(314,280)	-	129,813	4,562,972	5.46	0.17
Class G01	2,568,076	24,913	(251,004)	(2,534,012)	192,027	-	-	0.74
Class G05	51,946	-	-	(55,889)	3,943	-	-	0.59
Class G09	6,516,614	332,206	(291,990)	-	266,014	6,822,844	10.76	0.42
Class S1	1,295,585	-	(179,681)	-	64,881	1,180,785	9.18	0.47
Class S2	106,026	-	(11,608)	-	4,715	99,133	9.06	0.40
<b>Total</b>	<b>103,161,873</b>	<b>6,560,759</b>	<b>(7,860,529)</b>	<b>-</b>	<b>3,758,926</b>	<b>105,621,029</b>	<b>N/A</b>	<b>N/A</b>

### Reclassification of Certain Classes

On March 27, 2015, all of the outstanding units of Class G01 and Class G05 of the BMG Fund on that date were reclassified into Class A and Class B3 units of the BMG Fund.

Classes reclassified	Total units of the classes reclassified	Value of the units reclassified	Classes reclassified into	New units issued of the classes reclassified into	Value of new units issued
Class G01	243,122	\$ 2,534,012	Class A	511,331	\$ 2,534,012
Class G05	6,639	\$ 55,889	Class B3	5,589	\$ 55,889
<b>Total</b>		<b>\$ 2,589,901</b>	<b>Total</b>		<b>\$ 2,589,901</b>

## NOTES TO FINANCIAL STATEMENTS (continued)

(Unaudited)

### 4. Related-Party Transactions

#### Management Fees

The Manager is responsible for the day-to-day activities of the BMG Fund, providing or arranging for all required administrative services, and arranging for the distribution of units of the BMG Fund. For these services, the BMG Fund pays the Manager an annual management fee as defined by the rates set out below. The fees are payable monthly in arrears based on the average daily net assets of the BMG Fund.

Class A	2.25%	Class G09	1.25%
Class B3	1.25%	Class S1	0.45%
Class C3	0.75%	Class S2	0.95%
Class F	1.25%		

For the six months ended June 30, 2016 the BMG Fund incurred management fees of \$1,197,876 [2015: \$1,139,213].

For the six months ended June 30, 2016, the Manager absorbed the BMG Fund operating expenses of \$Nil [2015: \$26,648]. The decision to reduce the BMG Fund operating expenses is made at the discretion of the Manager and may be changed at any time.

#### Holdings of Related Party

The Manager held units in the following Class as at June 30:

	2016	2015
Class A	51,062	51,062

### 5. Sales Commission

A sales commission may be charged by a registered dealer or representative at the time an investor buys Class A units, Class B units, Class G units or Class S units of the BMG Fund. The maximum amount of the sales commission for Classes A, B, and G is 5.26% of the net amount invested, and for Class S 5.82% of the net amount invested. The sales commission is only negotiable for Classes A, B and G. No sales commission is currently charged for the other classes of units of the BMG Fund.

The Manager paid trailer fees to dealers of \$478,984 during the first six months of 2016 [2015: \$465,949].

### 6. Income Tax Loss Carryforwards

The BMG Fund has non-capital loss carryforwards of approximately \$17,790,000 [2015: \$16,377,000] available to offset future years' taxable income.

Non-capital losses expire in the taxation year ending December 31:

Year	\$
2029	3,000
2030	1,518,000
2031	2,223,000
2032	3,540,000
2033	3,290,000
2034	3,031,000
2035	2,772,000
2036	1,413,000

## NOTES TO FINANCIAL STATEMENTS (continued)

(Unaudited)

### 7. Financial Risk Management

The BMG Fund's financial instruments consist primarily of cash, subscriptions receivable, investments in gold bullion, management fees payable, redemptions payable and accounts payable and accrued liabilities. The BMG Fund's cash and gold bullion holdings are exposed to various types of risk, including market risk, credit risk, liquidity risk, interest rate risk and currency risk. These risks and related risk-management practices employed by the BMG Fund are described below.

#### Market Risk

Market risk is the risk that the fair value or future cash flows of gold bullion investments will fluctuate because of changes in market prices or transaction timing. The market price of gold is affected by a variety of factors, including demand, supply, international events and economic events. The BMG Fund employs a purchase-and-hold investment strategy, with purchases in one type of investment. Since the BMG Fund does not lease gold, the only future cash flows will be from dispositions of gold bullion. Dispositions of bullion will be necessary to pay redemptions when cash reserves are not adequate.

As at June 30, 2016, the effect on the BMG Fund's net assets if there were a 5% increase or decrease, in the price of gold bullion, with all other variables held constant, would be an increase, or decrease, of \$6,255,703 [December 31, 2015: \$5,188,532] or 4.98% [December 31, 2015: 4.99%].

The actual result will vary depending upon the quantity of gold held and other factors, and the difference may be material.

#### Credit Risk

As at June 30, 2016, the BMG Fund had no investments in debt instruments and/or derivatives. The BMG Fund limits its exposure to credit loss by placing its cash in high-credit-quality issuers. Dispositions of gold bullion, if any, are with a major Canadian chartered bank (or subsidiary thereof) that is a recognized dealer in bullion. The BMG Fund may have credit exposure to the Canadian chartered bank (or subsidiary thereof) to the extent of any unsettled trades.

#### Liquidity Risk

The BMG Fund is exposed to daily cash redemptions of redeemable units. The BMG Fund aims to retain sufficient cash positions to maintain liquidity. In addition, gold bullion is readily realizable and liquid. Therefore, the BMG Fund's liquidity risk is minimal. All liabilities are payable within a year. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for longer periods. The tables below analyze the BMG Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows.

#### June 30, 2016

Financial liabilities	On demand	< 3 Months	Total
Management fees payable	\$ -	\$ 223,319	\$ 223,319
Redemptions payable	-	78,488	78,488
Accounts payable and accrued liabilities	-	1,333,223	1,333,223
Redeemable units	125,617,074	-	125,617,074

#### December 31, 2015

Financial liabilities	On demand	< 3 Months	Total
Management fees payable	\$ -	\$ 204,211	\$ 204,211
Redemptions payable	-	40,705	40,705
Accounts payable and accrued liabilities	-	98,976	98,976
Redeemable units	103,983,387	-	103,983,387

#### Interest Rate Risk

The majority of the BMG Fund's financial assets and liabilities were non-interest-bearing as at June 30, 2016 and December 31, 2015. Accordingly, the BMG Fund is not directly exposed to significant risk due to fluctuations in the prevailing levels of market interest rates.

## NOTES TO FINANCIAL STATEMENTS (continued)

(Unaudited)

### Currency Risk

Gold bullion is generally quoted and traded in US dollars and, as a result, the BMG Fund is subject to foreign currency risk. The BMG Fund does not hedge its foreign currency exposure.

The BMG Fund holds cash in Canadian and US dollars to pay redemptions and operating costs. The Manager monitors the cash balance of the BMG Fund on a daily basis, and only purchases gold bullion when surplus cash is available. Normally the cash balance is less than 5% of the assets of the BMG Fund.

As at June 30, 2016, 99.6% [December 31, 2015: 99.9%] of the BMG Fund's net assets were exposed to US dollars. If the exchange rate with the Canadian dollar increased or decreased by 1% with all other variables held constant, net assets would have increased or decreased respectively by approximately \$1,251,703 [December 31, 2015: \$1,038,639].

Actual results may differ from this sensitivity analysis and the difference could be material, because the price of bullion tends to be negatively correlated with the US dollar.

### Foreign Currency Exposure

June 30, 2016

Description	US \$	Canada \$	Total \$
Cash	64,918	551,392	616,310
Investments in gold bullion	125,114,057	-	125,114,057
Other Net Assets	(8,708)	(104,585)	(113,293)
<b>Net Assets</b>	<b>125,170,267</b>	<b>446,807</b>	<b>125,617,074</b>
<b>Percent</b>	<b>99.6%</b>	<b>0.4%</b>	<b>100.0%</b>

December 31, 2015

Description	US \$	Canada \$	Total \$
Cash	101,101	430,062	531,163
Investments in gold bullion	103,770,645	-	103,770,645
Other Net Assets	(7,835)	(310,586)	(318,421)
<b>Net Assets</b>	<b>103,863,911</b>	<b>119,476</b>	<b>103,983,387</b>
<b>Percent</b>	<b>99.9%</b>	<b>0.1%</b>	<b>100.0%</b>

### 8. Capital Management

Redeemable units issued and outstanding are considered to be the capital of the BMG Fund. The BMG Fund does not have any specific capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Unitholders are entitled to require payment of the net asset value per unit of the BMG Fund for all or any of the units of such unitholder by giving written notice to the Manager. The written notice must be received no later than 4:00 p.m. EST on the valuation day upon which the units are to be redeemed. Additionally, the notice must be irrevocable and the signature thereon must be guaranteed by a Canadian chartered bank, a trust company or an investment dealer acceptable to the Manager. The units are redeemable for cash equal to a pro rata share of the BMG Fund's net asset value.

### 9. Fair Value Measurement

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, accounts payable and accrued liabilities, due to broker, redemptions payable, management fees payable and the BMG Fund's obligation for net assets attributable to holders of redeemable units approximate their fair values because of their short-term nature. Fair values are classified as Level 1 when the related investment is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are classified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

There were no transfers between levels for the six months ended June 30, 2016 and 2015. In addition, there were no investments or transactions classified in Level 3 for the six months ended June 30, 2016 and 2015.





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