

BMG Silver BullionFund

Annual Management Report of Fund Performance

For the period ended December 31, 2016



BULLION
MANAGEMENT
SERVICES INC.

A BMG Company

Caution regarding forward-looking statements

Certain portions of this Annual Management Report of Fund Performance, including, but not limited to, “Recent Developments”, may contain forward-looking statements about BMG Silver BullionFund (the “BMG Fund”), including statements with respect to strategies, risks, expected performance events and conditions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “could”, “would”, “forecasts”, “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, “projects” and similar forward-looking expressions or negative versions thereof.

Forward-looking statements are not guarantees of future performance and actual results or events could differ materially from those expressed or implied in any forward-looking statements made by the BMG Fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, such as interest and foreign currency rates, investment sentiment, volatility of precious metals prices, demand for various precious metals, and other factors affecting precious metals, currency fluctuations, global equity and capital markets, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above-mentioned list of important factors is not exhaustive. Some of these risks, uncertainties and other factors are described in the BMG Fund’s simplified prospectus, under the heading “Risk Factors.”

We encourage you to consider these and other factors carefully before making any investment decisions. Forward-looking statements should not be unduly relied upon. Further, you should be aware that the BMG Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance, and that the forward-looking statements speak only to the date of this Annual Management Report of Fund Performance.

This Annual Management Report of Fund Performance contains financial highlights, but does not contain the annual financial statements of the BMG Fund. If you did not receive a copy of the BMG Fund’s annual or interim financial statements, you may request a copy of such financial or quarterly portfolio disclosure at no cost by calling 1.888.474.1001, by writing to us at 280-60 Renfrew Drive, Markham, Ontario, L3R 0E1, or by visiting our website at www.bmgbullion.com or SEDAR at www.sedar.com.

MANAGEMENT REPORT OF FUND PERFORMANCE

Investment Objective and Strategies

BMG Silver BullionFund (the “BMG Fund”) invests in unencumbered, fully allocated physical silver that is held by the Bank of Nova Scotia. The BMG Fund’s objective is to provide a secure, convenient, medium-risk method for investors seeking to hold silver bullion for capital preservation, long-term appreciation, portfolio diversification and portfolio hedging purposes.

All physical bullion purchased by the BMG Fund meets the London Good Delivery standard as set out by the London Bullion Market Association (LBMA).

The economic factors that determine the price of silver are, in most cases, opposed to the factors that determine the prices of most other financial assets. Ownership of BMG Fund units, therefore, acts as a hedge against the volatility of other investments. Units of a class of the BMG Fund are only intended to be one part of an investment strategy.

A small portion of the BMG Fund's assets (generally no more than 5%) may be held in cash to allow the BMG Fund to pay its expenses, and to facilitate any redemption of units of a class of the BMG Fund. The BMG Fund will not use derivatives or invest in securities or certificates of companies that produce silver bullion. The BMG Fund will not invest in foreign securities, and it does not hedge its holdings. The value of the BMG Fund, therefore, is purely a function of the spot price of silver bullion.

Risk

The risks associated with investing in the BMG Fund remain as stated in the simplified prospectus dated September 26, 2016. The principal risk associated with investing in the BMG Fund is the fluctuating price of silver, as well as fluctuations in the relationship between the Canadian and U.S. dollars. In addition, the BMG Fund will be subject to precious metals risk, non-hedging strategy risk and specialization risk.

Results of Operations

All monetary amounts are expressed in Canadian dollars, unless otherwise indicated.

The BMG Fund was established on September 21, 2016 and commenced operations on September 26, 2016. The net asset value (“NAV”) of the BMG Fund was \$2.4 million on December 31, 2016. The NAV is comprised of \$2.6 million in net subscriptions, offset by \$0.2 million in net unrealized losses on investments in silver bullion and expenses. As at December 31, 2016, the BMG Fund’s silver holdings were 110,546 ounces.

For the period from September 26, 2016 to December 31, 2016, the NAV per unit of the BMG Fund’s Class A units declined by 16.3% in Canadian dollars, and by 17.2% in U.S. dollars, while the NAV per unit of the BMG Fund’s Class F units declined by 16.0% in Canadian dollars, and by 17.0% in U.S. dollars.

Recent Developments

Two major political events in 2016 that defied mainstream politics, pundits and forecasters were the British vote in June to leave the European Union (“Brexit”) and the result of the U.S. elections in November. The ramifications of both outcomes will be a dominant factor in geopolitics and the global economic environment for many years.

Financial markets commenced 2016 in decline and ended with a major upswing, fueled by expected policy actions from the new U.S. administration. In fact, much of the market volatility in 2016 was influenced by events in the U.S., such as the Federal Reserve interest rate policy, and the ebb and flow of the election campaign and its result. Europe also contributed to the tumultuous year with the Brexit, the refugee crisis, immigration backlash, terrorist attacks, and the defeat of the Italian government referendum on constitutional reform. In 2017, there will be several key elections in Europe: Germany, France and the Netherlands. The outcome of these elections is anything but assured. As well, Britain still has to commence negotiations to exit the European Union. Last year was a year of political upheavals that are likely to continue into 2017.

The “America First” stated policy of the new U.S. administration and possible protectionist trade barriers are worrisome to its trading partners, especially China and Mexico, heightening concerns that a trade war may develop in the near term. China

MANAGEMENT REPORT OF FUND PERFORMANCE (*continued*)

continues to navigate a soft landing for its economy with policy stimulus, but it is unclear how it will withstand a potential trade war with the U.S.

Recent comments by the Federal Reserve regarding its policy to gradually increase interest rates, along with expected infrastructure stimulus spending and tax cuts, resulted in an equity market rally, with many believing that equities are currently overvalued. Bond yields have spiked in a similar manner, causing disruption in fixed income securities. Inflationary pressures may emerge from stimulus spending. This inflationary pressure could cause interest rates to rise faster than currently projected by the Federal Reserve in order to keep inflation in check. The U.S. dollar rose sharply after the election and will continue to do so if interest rates keep on rising, as higher rates will only attract more capital inflow.

Oil prices have stabilized in recent months, but whether the agreement among OPEC and other major producers to cut output will hold longer term is yet to be seen. If it does not, the signs of recovery that oil-producing countries, including Canada, are experiencing may be short lived.

India made a surprise move on November 8, 2016 to demonetize by withdrawing and replacing the 500 (US\$7.36) and 1,000 (US\$14.72) rupee notes in a measure to reduce the shadow economy. The resulting cash shortage is expected to have a negative effect on India's near-term GDP growth and industrial production due to the economic disruption, since India is still largely a cash economy.

The IMF is forecasting 3.4% global GDP growth in 2017 compared to an estimated 3.1% for 2016. However, while the balance of risks is viewed as being downside, there is the potential for upside risk as well.

Bullion, which is priced in U.S. dollars, tends to move inversely to the dollar. The recent strengthening of the U.S. dollar has had a negative effect on the price of bullion. However, with the uncertainty and risk of rising inflation that currently exists as markets await the specifics of U.S. policy decisions, and the counteractions by countries that are targeted, silver should benefit as investors diversify their portfolios into precious metals to protect their investments.

The fundamentals of the silver market reflect that supply from mines appears to have peaked, while investor demand for coins and silver bars, ETF holdings and exchanges has stabilized and is increasing. The Silver Institute Interim Silver Market Review is projecting that 2016 will be the fourth consecutive year of a deficit in physical silver, with a 52.2 million ounce deficit. Over the medium term, one would expect the continuing supply deficits to provide upward momentum for the silver price.

Related-Party Transactions

Manager and Trustee

Bullion Management Services Inc. (the "Manager") is the manager, trustee, registrar and transfer agent for the BMG Fund. The Manager provides, or arranges for the provision of, all management and administrative services for day-to-day operations, including providing fund and unitholder accounting, recordkeeping and other administrative services. At December 31, 2016, the Manager held 10,000 Class A units and 5,000 Class F units of the BMG Fund.

In consideration of management and administrative services, the BMG Fund pays the Manager a monthly management fee based on the NAV of the various classes of units of the BMG Fund, calculated daily. For the period ended December 31, 2016, the BMG Fund incurred management fees of \$6,235.

Distributor

Bullion Marketing Services Inc., an affiliate of the Manager, has been retained by the Manager to assist with the marketing and distribution of units of the BMG Fund in the exempt market pursuant to prospectus exemptions.

Independent Review Committee

The Manager has created an independent review committee ("IRC") to review and provide impartial judgment on conflict of interest matters. The IRC reviews potential conflicts of interest referred to it by the Manager, and makes recommendations on whether a course of action is fair and reasonable for the BMG Fund. The IRC prepares an annual report of its activities for interested parties. A copy of the IRC's report for 2016 is available at www.bmgbullion.com.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about each class of units of the BMG Fund, and are intended to help you understand the BMG Fund's financial performance for the year shown ended December 31, and/or from the period since the particular class was first offered. The information is derived from the BMG Fund's financial statements.

THE FUND'S NET ASSETS PER CLASS A UNIT	2016*
Net assets - beginning of period ⁽¹⁾	\$ 10.00
Decrease from operations:	
Total revenue	-
Total expenses (excluding distributions)	(0.07)
Realized gains (losses) for the period	-
Unrealized losses for the period	(1.38)
Total decrease from operations⁽²⁾	(1.45)
Distributions:	
From net investment income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
Total annual distributions⁽³⁾	-
Net assets at December 31 of period shown	\$ 8.37
RATIOS AND SUPPLEMENTAL DATA:	
Total net asset value (000's) ⁽¹⁾	\$ 1,750
Number of units outstanding ⁽¹⁾	209,162
Management expense ratio (%) ⁽²⁾	3.06
Management expense ratio before waivers or absorption (%)	15.27
Trading expense ratio (%) ⁽³⁾	-
Portfolio turnover rate (%) ⁽⁴⁾	-
Net asset value per unit	\$ 8.37

*Data is from September 26, 2016, the date the Class A units were first offered, to December 31, 2016. For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

THE FUND'S NET ASSETS PER CLASS B3 UNIT	2016*
Net assets - beginning of period ⁽¹⁾	\$ 10.00
Decrease from operations:	
Total revenue	-
Total expenses (excluding distributions)	(0.02)
Realized gains (losses) for the period	-
Unrealized losses for the period	(0.27)
Total decrease from operations⁽²⁾	(0.29)
Distributions:	
From net investment income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
Total annual distributions⁽³⁾	-
Net assets at December 31 of period shown	\$ 9.71
RATIOS AND SUPPLEMENTAL DATA:	
Total net asset value (000's) ⁽¹⁾	\$ 456
Number of units outstanding ⁽¹⁾	47,001
Management expense ratio (%) ⁽²⁾	1.98
Management expense ratio before waivers or absorption (%)	8.62
Trading expense ratio (%) ⁽³⁾	-
Portfolio turnover rate (%) ⁽⁴⁾	-
Net asset value per unit	\$ 9.71

*Data is from November 18, 2016, the date the Class B3 units were first offered, to December 31, 2016. For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

FINANCIAL HIGHLIGHTS (continued)

THE FUND'S NET ASSETS PER CLASS F UNIT	2016*
Net assets - beginning of period ⁽¹⁾	\$ 10.00
Decrease from operations:	
Total revenue	-
Total expenses (excluding distributions)	(0.05)
Realized gains (losses) for the period	-
Unrealized losses for the period	(1.64)
Total decrease from operations⁽²⁾	(1.69)
Distributions:	
From net investment income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
Total annual distributions⁽³⁾	-
Net assets at December 31 of period shown	\$ 8.40
RATIOS AND SUPPLEMENTAL DATA:	
Total net asset value (000's) ⁽¹⁾	\$ 223
Number of units outstanding ⁽¹⁾	26,521
Management expense ratio (%) ⁽²⁾	2.02
Management expense ratio before waivers or absorption (%)	21.15
Trading expense ratio (%) ⁽³⁾	-
Portfolio turnover rate (%) ⁽⁴⁾	-
Net asset value per unit	\$ 8.40

*Data is from September 26, 2016, the date the Class F units were first offered, to December 31, 2016. For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

Explanatory Notes to Financial Highlights

Fund's Net Assets per Unit of each Class

(1) This information is derived from the BMG Fund's financial statements. In the period a BMG Fund or class is established, the financial information is provided from the date a particular class was first offered to the end of the period. The NAV per class presented in the financial statements does not differ from the NAV per class calculated for fund pricing purposes.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing net assets per unit.

(3) The BMG Fund did not make any distributions.

Ratios and Supplemental Data

(1) This information is provided as at the end of the period shown.

(2) The management expense ratio is based on total expenses for the stated period, and is expressed as an annualized percentage of daily average NAV during the period.

(3) The trading expense ratio represents the total commissions and other portfolio transaction costs expressed as an annualized percentage of NAV during the period.

(4) The BMG Fund's portfolio turnover rate indicates how actively the BMG Fund's silver bullion investments are traded. A portfolio turnover rate of 100% is equivalent to the BMG Fund buying and selling all its silver bullion once in the course of the relevant period. There is no trading cost payable by the BMG Fund. The higher a portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the BMG Fund.

FINANCIAL HIGHLIGHTS (continued)

Management Fees

Management fees are paid by each class of the BMG Fund to the Manager, and are calculated at the applicable annual percentage of the NAV of each class of the BMG Fund. A portion of the management fees paid by the BMG Fund is for trailer fees paid to dealers. The trailer fees are a percentage of the daily average NAV of the applicable class of units of the BMG Fund that are held by the dealers' clients. No trailer fees are paid with respect to Class F units of the BMG Fund. The table below outlines the BMG Fund's annual management fees for Class A, Class B3 and Class F units, and how those fees are split between trailer fees and portfolio administration.

	Class A	Class B3	Class F
Management Fee	2.25%	1.25%	1.25%
Portfolio Administration Fee	55.6%	60%	100%
Trailer Fee (maximum rate as a percentage of management fees)	44.4%	40%	0%

Out of the management fees that the Manager received from the BMG Fund, the Manager paid trailer fees of \$2,525 during the period ended December 31, 2016.

Operating Expenses

For the period ended December 31, 2016, the Manager absorbed BMG Fund operating expenses of \$39,751. The decision to reduce operating expenses is made at the discretion of the Manager, and may be changed at any time.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2016

	Allocated ounces	Unallocated ounces	Total Fine ounces	Average Cost \$	Fair Value \$	Total %
Silver Bullion	109,810.326	735.734	110,546.060	2,592,500	2,407,558	99.4
Cash				14,886	14,901	0.6
Total Investment				2,607,386	2,422,459	100.0

Due to ongoing portfolio transactions, the Summary of Investment Portfolio may have changed by the time you purchase units of the BMG Fund. A quarterly update is available. To obtain a copy, please contact our Client Services team at 1.888.474.1001, or visit www.bmgbullion.com.



BULLION MANAGEMENT SERVICES INC.

HEAD OFFICE 280-60 RENFREW DRIVE, MARKHAM, ON L3R 0E1 CANADA
1.888.474.1001 | 905.474.1001 | BMGBULLION.COM | INFO@BMGBULLION.COM

The BMG Group of Companies includes the parent company, Bullion Management Group Inc., and its wholly owned subsidiaries, Bullion Management Services Inc., Bullion Marketing Services Inc., BMG DSC Inc. and Bullion Custodial Services Inc. (collectively, "BMG").

The forward-looking information, opinions, estimates and projections contained herein are solely those of Bullion Management Services Inc. ("BMS"), a BMG company, and are subject to change without notice. BMS makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, BMS assumes no responsibility for any losses or damages, whether direct or indirect, that arise out of the use of this information. BMS is the investment manager of BMG BullionFund™, BMG Gold BullionFund™ and BMG Silver BullionFund™ (collectively, "BMG Funds"). The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Commissions, trailing commissions, management fees and expenses may all be associated with an investment in BMG Funds™. Please read the prospectus before investing. BMG BullionFund™, BMG Gold BullionFund™ and BMG Silver BullionFund™ are not guaranteed, their units fluctuate in value and past performance may not be repeated.