

# BMG Silver BullionFund

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## Annual Management Report of Fund Performance (Amended)

For the year ended December 31, 2017



BMG  
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.bmg-group.com](http://www.bmg-group.com) or SEDAR at [www.sedar.com](http://www.sedar.com).*

## MANAGEMENT REPORT OF FUND PERFORMANCE

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### 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 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. The BMG Fund’s objectives and strategies did not change in 2017.

### Risk

The risks associated with investing in the BMG Fund remain as stated in the simplified prospectus dated November 23, 2017. 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 US dollars. In addition, the BMG Fund will be subject to precious metals risk, non-hedging strategy risk and specialization risk. The BMG Fund’s risk rating was changed in 2017 from medium to high risk as a result of compliance with the Canadian Securities Administrators' updated Risk Classification Methodology mandated effective September 1, 2017.

### Results of Operations

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

In 2017, the net asset value (“NAV”) of the BMG Fund increased 142% from \$2.4 million at December 31, 2016 to \$5.9 million at December 31, 2017. The increase was primarily driven by \$4.1 million in net subscriptions, offset by \$0.4 million realized and unrealized losses on silver bullion investments. As at December 31, 2017, the BMG Fund’s silver holdings were 279,078 ounces, compared to 110,546 ounces at December 31, 2016.

For the year ended December 31, 2017, the NAV per unit of the BMG Fund’s Class A units declined by 6.8% in Canadian dollars, and by 0.2% in US dollars, while the NAV per unit of the BMG Fund’s Class F units declined by 5.8% in Canadian dollars, and increased by 0.8% in US dollars. The lower performance in Canadian dollars is due to the Canadian dollar appreciation of 7.0% against the US dollar in 2017.

Silver started the year at US\$16.24 per ounce, reached a high of US\$18.56 in April, fell to a low of US\$15.22 per ounce in July, and closed at US\$16.87 on December 31.

### Recent Developments

The International Monetary Fund is currently estimating the global growth rate for 2017 at 3.7%, improving to 3.9% in 2018. This improved outlook is driven by the massive US tax overhaul, which occurred at the end of 2017, and a pickup in growth in Europe and Asia. It has been a decade since the recession of 2007-2008, a decade marked by expansionary monetary policy resulting in historically ultra-low interest rates and bloated central bank balance sheets that ballooned through quantitative easing. The US Federal Reserve commenced the process of unwinding its balance sheet in October 2017 with an announced US\$50 billion per month of tapering. At the same time, central banks are increasing interest rates. Of the G7 countries, central banks in the US, the UK and Canada raised interest rates during 2017.

## MANAGEMENT REPORT OF FUND PERFORMANCE (*continued*)

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As a result, the global financial system is experiencing a condition not seen since 1929: A simultaneous triple bubble in stocks, bonds and real estate sitting on a historically unprecedented pile of US\$270 trillion of government debt, subprime auto debt, student loan debt, margin debt and consumer debt, in addition to a mountain of over US\$542 trillion of derivatives. Reduction of central bank balance sheets, rising interest rates and potentially inflation, along with asset bubbles, mean all the right conditions are in place for a financial market correction. This will be a correction where central bankers are left in a precarious position with few policy tools to orchestrate a soft landing amid the buildup of debt.

Additionally, geopolitical issues, such as the renegotiation of NAFTA, protectionist trade policies in the US and heightened tension between the US and North Korea, remain in focus.

Each of the above factors will have a significant impact on the price of silver during 2018 and beyond.

### **Silver**

The price of silver ended the year at US\$16.87, an increase of 3.8% from the prior year's close. In Canadian dollars, it decreased by 2.9% over the same period.

The November 2017 GFMS/Silver Institute Interim Silver Market Review estimates that silver supply will be flat in 2017, but the trend of falling mine supply, which started in 2016, will continue over the long term. Miners, who have been faced with lower metals prices over the last several years, increasing production costs and tougher regulations, have been closing mines and reducing capital and exploration budgets. This is expected to lead to reserve and supply shortages in the coming years, as the timeline for a mine to become operational from the start of exploration is quite lengthy.

After four years of supply deficits, 2017 is expected to have a small surplus, primarily due to a 37% drop in investment demand for coins and bars, led by North America. As with other precious metals, an uptick in investor demand is dependent on macroeconomic factors.

Compared to gold, silver prices have been depressed for several years. The gold:silver ratio at the end of 2017 was 77:1 compared to 55:1 only five years ago at the end of 2012.

### **Amendment to Annual Financial Statements -Income taxes**

As at December 31, 2017, the BMG Fund had no non-capital losses available to offset future years' taxable income. This differs from what was previously reported.

For tax purposes, the BMG Fund generally treats gains from the disposition of bullion as capital gains, rather than income, as it intends to be a long-term passive holder of bullion, and it generally disposes of its holdings in bullion only for the purposes of meeting redemptions or to fund the payment of expenses incurred by the BMG Fund. The Canada Revenue Agency has, however, expressed the opinion that gains or losses of mutual fund trusts resulting from transactions in commodities should generally be treated for tax purposes as ordinary income rather than as capital gains, although the treatment in each particular case remains a question of fact to be determined having regard to all the circumstances. The Canada Revenue Agency may assert that its position applies to BMG Fund's transactions in respect of bullion.

The BMG Fund has capital loss carryforwards of approximately \$36,000 available to offset future years' capital gains.

## MANAGEMENT REPORT OF FUND PERFORMANCE *(continued)*

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### **Related-Party Transactions**

#### *Manager and Trustee*

BMG 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, 2017, 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 year ended December 31, 2017, the BMG Fund incurred management fees of \$111,301.

#### *Distributor*

BMG 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 (the “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 2017 is available at [www.bmg-group.com](http://www.bmg-group.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 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.

<b>THE FUND'S NET ASSETS PER CLASS A UNIT</b>	<b>2017</b>	<b>2016*</b>
<b>Net assets - beginning of year<sup>(1)</sup></b>	<b>\$ 8.37</b>	<b>\$ 10.00</b>
<b>Decrease from operations:</b>		
Total revenue	0.01	-
Total expenses (excluding distributions)	(0.25)	(0.07)
Realized losses for the period	(0.06)	-
Unrealized losses for the period	(0.58)	(1.38)
<b>Total decrease from operations<sup>(2)</sup></b>	<b>(0.88)</b>	<b>(1.45)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>-</b>	<b>-</b>
<b>Net assets at December 31 of year shown</b>	<b>\$ 7.80</b>	<b>\$ 8.37</b>
<b>RATIOS AND SUPPLEMENTAL DATA:</b>		
Total net asset value (000's) <sup>(1)</sup>	\$ 4,884	\$ 1,750
Number of units outstanding <sup>(1)</sup>	625,973	209,162
Management expense ratio (%) <sup>(2)</sup>	3.06	3.06
Management expense ratio before waivers or absorption (%)	5.00	15.27
Trading expense ratio (%) <sup>(3)</sup>	-	-
Portfolio turnover rate (%) <sup>(4)</sup>	8.00	-
Net asset value per unit	\$ 7.80	\$ 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.

<b>THE FUND'S NET ASSETS PER CLASS B3 UNIT</b>	<b>2017</b>	<b>2016*</b>
<b>Net assets - beginning of year<sup>(1)</sup></b>	<b>\$ 9.71</b>	<b>\$ 10.00</b>
<b>Decrease from operations:</b>		
Total revenue	-	-
Total expenses (excluding distributions)	(0.19)	(0.02)
Realized losses for the period	(0.06)	-
Unrealized losses for the period	(0.31)	(0.27)
<b>Total decrease from operations<sup>(2)</sup></b>	<b>(0.56)</b>	<b>(0.29)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>-</b>	<b>-</b>
<b>Net assets at December 31 of year shown</b>	<b>\$ 9.15</b>	<b>\$ 9.71</b>
<b>RATIOS AND SUPPLEMENTAL DATA:</b>		
Total net asset value (000's) <sup>(1)</sup>	\$ 430	\$ 456
Number of units outstanding <sup>(1)</sup>	47,001	47,001
Management expense ratio (%) <sup>(2)</sup>	1.98	1.98
Management expense ratio before waivers or absorption (%)	4.29	8.62
Trading expense ratio (%) <sup>(3)</sup>	-	-
Portfolio turnover rate (%) <sup>(4)</sup>	8.00	-
Net asset value per unit	\$ 9.15	\$ 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	2017	2016*
Net assets - beginning of year <sup>(1)</sup>	\$ 8.40	\$ 10.00
<b>Decrease from operations:</b>		
Total revenue	0.01	-
Total expenses (excluding distributions)	(0.17)	(0.05)
Realized losses for the period	(0.06)	-
Unrealized losses for the period	(0.47)	(1.64)
<b>Total decrease from operations<sup>(2)</sup></b>	<b>(0.69)</b>	<b>(1.69)</b>
<b>Distributions:</b>		
From net investment income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>-</b>	<b>-</b>
<b>Net assets at December 31 of year shown</b>	<b>\$ 7.91</b>	<b>\$ 8.40</b>
<b>RATIOS AND SUPPLEMENTAL DATA:</b>		
Total net asset value (000's) <sup>(1)</sup>	\$ 633	\$ 223
Number of units outstanding <sup>(1)</sup>	80,065	26,521
Management expense ratio (%) <sup>(2)</sup>	2.02	2.02
Management expense ratio before waivers or absorption (%)	4.09	21.15
Trading expense ratio (%) <sup>(3)</sup>	-	-
Portfolio turnover rate (%) <sup>(4)</sup>	8.00	-
Net asset value per unit	\$ 7.91	\$ 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 <i>(maximum rate as a percentage of management fees)</i>	44.4%	40%	0%

Out of the management fees that the Manager received from the BMG Fund, the Manager paid trailer fees of \$46,148 during the year ended December 31, 2017.

### Operating Expenses

For the year ended December 31, 2017, the Manager absorbed BMG Fund operating expenses of \$107,229. The decision to reduce operating expenses is made at the discretion of the Manager, and may be changed at any time.

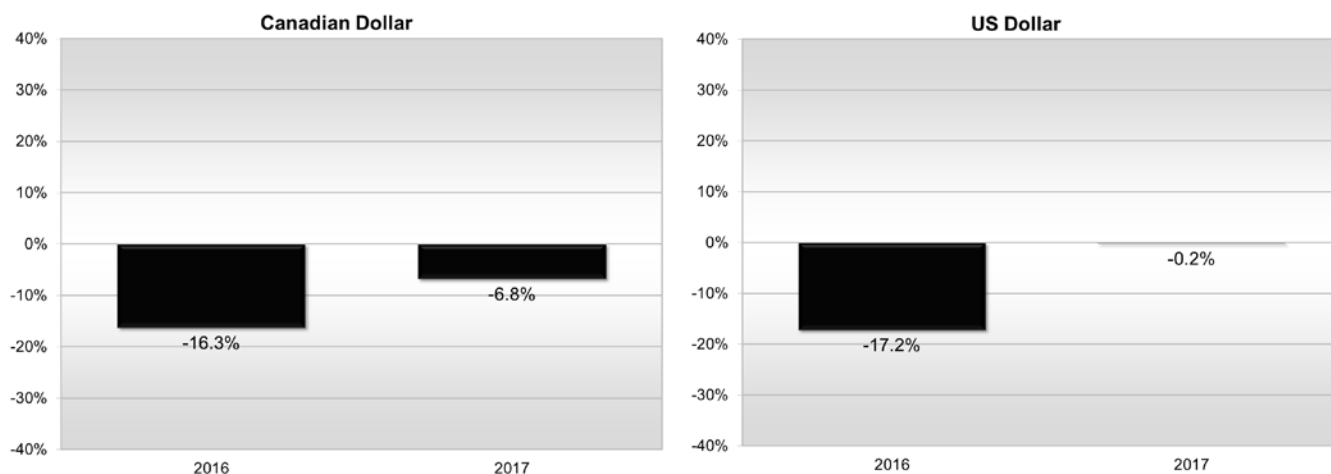
## PAST PERFORMANCE

The following information does not take into account sales or redemption charges that would have reduced returns. Past performance does not necessarily indicate how the BMG Fund will perform in the future.

### Year-by-Year Returns

The following bar charts show the BMG Fund's performance for each class of units of the BMG Fund in Canadian and US dollars, as applicable, in each of the years shown. They illustrate how the BMG Fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial year has increased or decreased by the last day of each financial year.

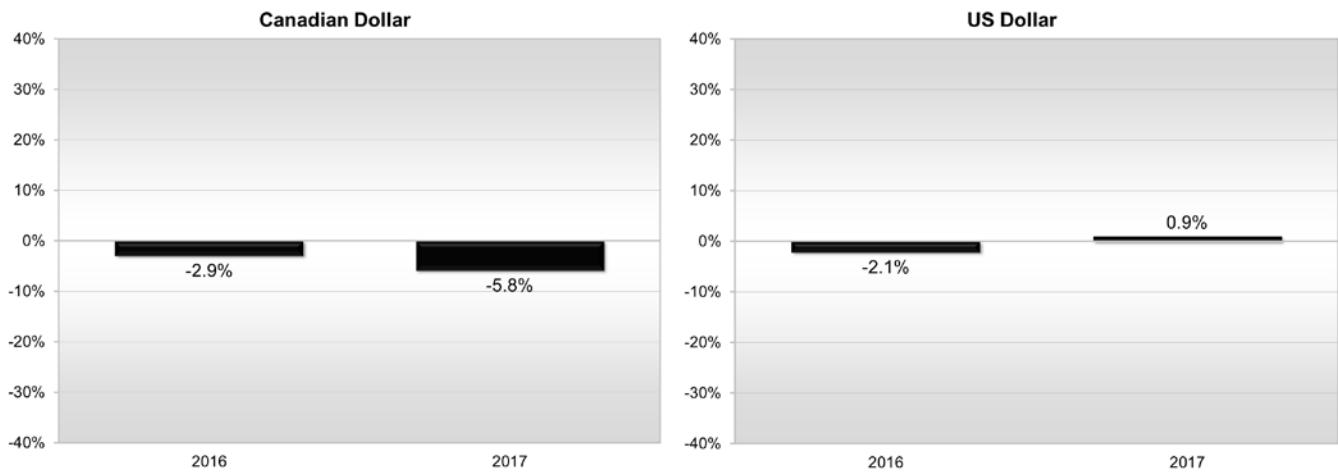
#### Class A



The return shown for 2016 is for the period from September 26, 2016, the date the Class A units were first offered.

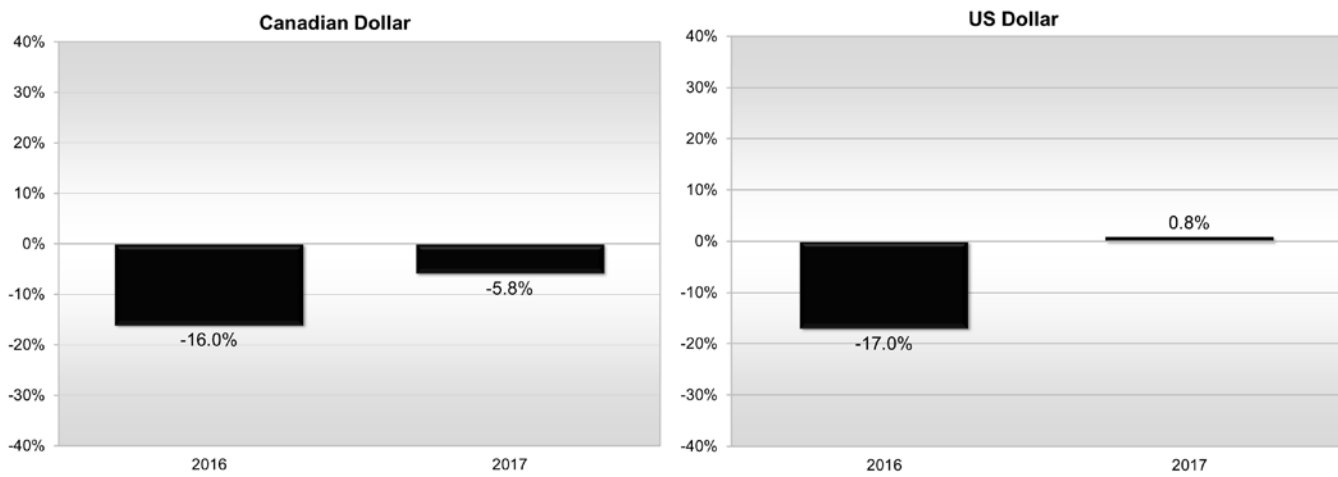
## PAST PERFORMANCE (CONTINUED)

### Class B3



The return shown for 2016 is for the period from November 18, 2016, the date the Class B3 units were first offered.

### Class F



The return shown for 2016 is for the period from September 26, 2016, the date the Class F units were first offered.



## PAST PERFORMANCE (CONTINUED)

### Annual Compound Returns

The following table shows the annual compound total returns for each class of units of the BMG Fund in Canadian and US dollars since inception, or for the ten, five, three and one year periods ended on December 31, 2017, as applicable. Annual returns in Canadian dollars are compared to inflation as measured by the Canadian Consumer Price Index (“CPI”) as calculated by Statistics Canada, as well as to Bank of Canada’s 3-month Treasury Bills. Annual returns in US dollars are compared to inflation as measured by the US CPI as calculated by the US Department of Labor, as well as to US 3-month Treasury Bills.

#### Class A

	Since Inception (September 2016)	1 Year
The BMG Fund Class A CDN\$	-17.8%	-6.8%
Inflation (CPI, Statistics Canada)	1.2%	1.9%
Bank of Canada, 3-month Treasury Bills	0.7%	0.7%
The BMG Fund Class A US\$	-14.0%	-0.2%
Inflation (CPI, US Dept. of Labor)	1.7%	2.1%
US, 3-month Treasury Bills	0.8%	1.0%

#### Class B3

	Since Inception (March 2015)	1 Year
The BMG Fund Class B3 CDN\$	-7.6%	-5.8%
Inflation (CPI, Statistics Canada)	1.6%	1.9%
Bank of Canada, 3-month Treasury Bills	0.7%	0.7%
The BMG Fund Class B3 US\$	-1.1%	0.9%
Inflation (CPI, US Dept. of Labor)	2.0%	2.1%
US, 3-month Treasury Bills	0.9%	1.0%

#### Class F

	Since Inception (March 2015)	1 Year
The BMG Fund Class F CDN\$	-16.9%	-5.8%
Inflation (CPI, Statistics Canada)	1.2%	1.9%
Bank of Canada, 3-month Treasury Bills	0.7%	0.7%
The BMG Fund Class F US\$	-13.1%	0.8%
Inflation (CPI, US Dept. of Labor)	1.7%	2.1%
US, 3-month Treasury Bills	0.8%	1.0%

## SUMMARY OF INVESTMENT PORTFOLIO

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As at December 31, 2017

	<b>Allocated ounces</b>	<b>Unallocated ounces</b>	<b>Total Fine ounces</b>	<b>Average Cost \$</b>	<b>Fair Value \$</b>	<b>Total %</b>
Silver Bullion	277,440.540	1,637.810	279,078.350	6,436,385	5,897,179	99.1
Cash				55,053	54,121	0.9
<b>Total Investment</b>				<b>6,491,438</b>	<b>5,951,300</b>	<b>100.0</b>

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.bmg-group.com](http://www.bmg-group.com).



B M G M A N A G E M E N T S E R V I C E S I N C .

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The BMG Group of Companies includes the parent company, BMG Group Inc., and its wholly owned subsidiaries, BMG Management Services Inc., BMG 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 BMG 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.