

# BMG BullionFund

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## Annual Management Report of Fund Performance

For the Year Ended December 31, 2010



BULLION  
MANAGEMENT  
SERVICES INC.



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This annual management report of fund performance contains financial highlights. Additional information relating to BMG BullionFund can be found in the attached annual financial statements. You can obtain a copy of the quarterly portfolio disclosure at no cost, by calling 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](http://www.bmgbullion.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

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### Investment Objectives and Strategies

BMG BullionFund (the "Fund") invests in equal dollar proportions of unencumbered, fully allocated gold, silver and platinum bullion that is held by The Bank of Nova Scotia. The Fund's objective is to provide a secure, convenient, low-cost, low-risk alternative for investors seeking to hold gold, silver and platinum bullion for capital preservation, long-term appreciation, portfolio diversification and portfolio hedging purposes.

By investing an equal portion of the Fund's subscription proceeds in gold, silver and platinum bullion, the Fund should be able to effectively reduce its volatility while improving long-term returns. This can be accomplished because the value of gold is based primarily on its monetary qualities, whereas the value of silver and platinum are based primarily on their usefulness as commodities. During normal economic times, the commodity demand for silver and platinum should be higher than for gold, and the value of silver and platinum should typically outperform the value of gold. In contrast, if monetary demand increases, then the value of gold should typically increase faster than that of silver or platinum, although over time both silver and platinum should follow the price of gold. As a result, by investing in all three metals, the Fund should be able to reduce volatility while improving long-term returns.

The economic factors that determine the price of gold, silver and platinum are also, in most cases, opposed to the factors that determine the prices of most other financial assets. Ownership of Fund units, therefore, acts as a hedge against the volatility of other investments. Units of a class of the Fund are not speculative and are only intended to be one part of an investment strategy.

A small portion of the Fund's assets (generally no more than 5 percent) may be held in cash to allow the Fund to pay its expenses and to facilitate any redemption of units of a class of the Fund. The Fund will not use derivatives or invest in securities or certificates of companies that produce gold, silver or platinum bullion. The Fund will not invest in foreign securities and does not hedge its holdings. The Fund's objectives and strategies did not change in 2010.

### Risk

The risks of investing in the Fund remain as stated in the prospectus. The principal risk associated with investing in the Fund is fluctuations in the prices of the metals, as well as fluctuations in the relationship between the Canadian and US dollars. In addition, the Fund will be subject to precious metals risk, non-hedging strategy risk, and specialization risk.

### Results of Operations

During the fiscal year of 2010, the Fund's net assets grew 22.2 percent, from \$290,154,946 at December 31, 2009 to \$354,457,357 at December 31, 2010. The growth was primarily driven by an \$84.1 million unrealized appreciation and a \$9.3 million realized gain in the price of bullion that were partially offset by \$20.7 million in net redemptions. The net redemptions were essentially due to investors who were more bullish on the price of gold and who switched their assets into units of the BMG Gold BullionFund. Therefore, the Fund's precious metals holdings decreased from 94,565 ounces to 85,398 ounces for gold from 5,574,150 ounces to 4,971,697 ounces for silver and from 53,567 ounces to 46,893 ounces for platinum.

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

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For the year ended December 31, 2010, the Fund's Class A units generated total returns of 31.1 percent in Canadian dollars and 38.3 percent in US dollars, while the Fund's Class F units generated total returns of 32.5 percent and 39.8 percent, respectively. Gold reached a new record high of US \$1,421 an ounce on November 9, 2010 and pulled back to US \$1,410.25 an ounce at year-end.

Total operating expenses increased 14.9 percent while net assets increased 22.2 percent from December 31, 2009 to December 31, 2010. The majority of the increase in net assets (20.8 percent) was attributed to the market price and increase of bullion holdings, while the introduction of the Harmonized Sales Tax (HST) on July 1, 2010 contributed to an increase in expenses.

### **Recent Developments**

#### **Gold**

Gold received considerable media attention in 2010 as its price continued to soar. In US dollars, gold rose 27.7 percent. This is not only because there has been a rising trend for seven consecutive years, but also because gold is gaining respect as a currency in its own right. In particular, gold is resuming its monetary role, and could be regarded as the "ultimate reserve currency."

There are several fundamental factors supporting higher gold prices: institutional investors are realigning their portfolios to increase precious metals allocation; central banks have been net buyers of gold since 2009; worries over the European sovereign debt crisis; the US Federal Reserve's much-anticipated \$600-billion Treasury purchase program, QEII, which follows earlier Quantitative Easing programs; America's \$13-trillion debt; and the increasing demand from China and India.

#### **Silver**

While gold thrived in 2010, silver's price momentum was even more spectacular, thanks to a combination of both industrial and investment demand. Silver returned 80.3 percent in US dollars for the year. Industrial consumption was driven by demand from industries such as electronics, dentistry, jewellery, photography and nanotechnology in clothing. Investment demand was driven by increasingly larger volumes of incoming capital flows to the precious metals sector for the purpose of wealth preservation. The conventional gold-to-silver ratio of 16:1, based on an estimate of underground reserves, provides both support and the possibility of future upward price movement.

#### **Platinum**

The increase in the price of platinum was primarily driven by industrial demand, coupled with insufficient supply. Platinum returned 18.1 percent in US dollars. This supply constraint can be attributed to factors in South Africa, which supplies 80 percent of the world's platinum. The effects of safety stoppages, strikes, cost pressures and high capital costs will continue to limit the local producers' ability to respond quickly to stronger demand. Statistically, platinum has a 95 percent correlation with the price of gold. With annual production volume at 6.0 million ounces, it is more rare than gold. From the investment side, there is also a rising demand for physical financial products, which indicates further growth in the coming year.

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

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### **International Monetary Fund**

On December 21, 2010, the International Monetary Fund (the “IMF”) announced the conclusion of its limited sales program, which covered 403.3 metric tonnes of gold in this first phase of off-market sales to interested central banks and other official holders. In October and November of 2009, the IMF sold 200 metric tonnes to the Reserve Bank of India; 2 metric tonnes to the Bank of Mauritius; and 10 metric tonnes to the Central Bank of Sri Lanka. In September 2010, the IMF sold 10 metric tonnes to the Bangladesh Bank. The IMF said it sold another 19.5 metric tonnes of gold in October, but has not yet provided details of sales in November and December.

### **China**

China continues to be one of the leading countries that drives demand for gold. The head of the Shanghai Gold Exchange is on record as saying that China imported 209.7 metric tonnes of gold during the first 10 months of 2010. China has emerged as the world’s top gold-producing country. Its mine production was 314 metric tonnes in 2009 and is expected to be around 350 metric tonnes in 2010. As the country’s economy has grown, the Chinese have been purchasing more gold, primarily as jewellery, although investment demand is growing as well. The World Gold Council estimates investment demand in China will hit 150 metric tonnes in 2010, compared with 105 metric tonnes in 2009, a 43 percent increase. As the Chinese government continues to relax its control over the gold market, the outlook for increasing investment demand is promising.

### **India**

India is another country that attaches a high cultural value to gold. According to a report released by the World Gold Council in November 2010, gold demand in India has increased at an average rate of 13 percent per year over the past ten years. The country currently has one of the highest saving rates in the world (second to China at 40 percent), estimated at around 30 percent of total income, of which 10 percent is invested in gold. India’s demographic trends, the growing affluent middle classes and declining age profile will support consumption growth. Gold is an integral part of daily life in India. It is viewed as a secure, liquid investment, a capital and value preserver. The Reserve Bank of India, like most other central banks, has substantial holdings in US dollars and Euros but has recently added to its gold holdings. With ongoing economic uncertainties in both the US and Europe, resulting in depreciating dollars and euros, the fact that central banks are increasing their gold reserves for hedging and diversification should come as no surprise.

### **Related-Party Transactions**

Bullion Management Services Inc. (the “Manager”) is the manager, trustee, registrar and transfer agent for the Fund. The Manager provides or arranges for the provision of all management and administrative services for day-to-day Fund operations, including providing Fund and unitholder accounting, record keeping and other administrative services. In consideration of the management and administrative services, the Fund pays the Manager a monthly management fee based on the net asset value (the “NAV”) of the various classes of units of the Fund, calculated daily. During the year ended December 31, 2010 the Fund incurred management fees of \$6,058,011 [2009: \$5,365,608].

For the year ended December 31, 2010, the Manager absorbed expenses of nil [2009: \$58,767]. The decision to reduce Fund operating expenses is made at the discretion of the Manager and may be changed at any time.

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

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Bullion Marketing Services Inc., an affiliate of the Manager, has been retained by the Manager to assist with the distribution of units of the Fund.

At December 31, 2010, the Manager held 20,193 [2009: 20,193] Class E15 units of the Fund.

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 Fund. The IRC prepares an annual report of its activities for interested parties. A copy of the IRC’s report for 2010 will be available at [www.bmgbullion.com](http://www.bmgbullion.com) in March 2011.

### MANAGEMENT FEES

A portion of the management fees paid by the Fund is for trailer fees paid to dealers. The trailer fees are a percentage of the daily average NAV of the Class A units of the Fund, which are held by the dealer’s clients. The table below outlines the Fund’s annual management fees and the maximum trailer fees for the Class A units and Class F units of the Fund.

	Class A	Class F
Management Fee	2.25%	1.25%
Trailer Fee (maximum rate as a percentage of management fees)	44.4%	0%

## CLASS A

### Financial Highlights

The following tables show selected key financial information about the Class A units of the Fund and are intended to help you understand the Fund's financial performance for the past five years. The information is derived from the Fund's audited annual financial statements

	2010	2009	2008	2007	2006
<b>Net assets - beginning of period<sup>(1)</sup></b>	<b>\$9.62</b>	<b>\$8.07</b>	<b>\$8.41</b>	<b>\$8.20</b>	<b>\$6.59</b>
<b>INCREASE (DECREASE) FROM OPERATIONS:</b>					
Total revenue	0.00	0.00	0.02	0.00	0.03
Total expenses	(0.32)	(0.27)	(0.30)	(0.28)	(0.25)
Realized gains (losses)	0.33	0.26	0.01	0.00	0.10
Unrealized gains (losses)	2.95	1.47	(0.56)	0.52	1.53
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>2.96</b>	<b>1.46</b>	<b>(0.83)</b>	<b>0.24</b>	<b>1.41</b>
<b>DISTRIBUTIONS:</b>					
From income	0.00	0.00	0.00	0.00	0.00
From dividends	0.00	0.00	0.00	0.00	0.00
From capital gains	0.00	0.00	0.00	0.00	0.00
Return of capital	0.00	0.00	0.00	0.00	0.00
<b>Total distributions</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net assets - end of period</b>	<b>\$12.62</b>	<b>\$9.62</b>	<b>\$8.07</b>	<b>\$8.41</b>	<b>\$8.20</b>
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Total net asset value <sup>(1)</sup> (000's)	\$263,032	\$217,764	\$156,147	\$92,851	\$66,299
Number of units outstanding <sup>(1)</sup>	20,846,609	22,619,864	19,354,086	11,038,996	8,082,540
Management expense ratio (%) <sup>(2)</sup>	3.06	2.98	3.31	3.48	3.23
Management expense ratio before waivers or absorption (%)	3.06	3.01	3.31	3.48	3.42
Portfolio turnover rate (%) <sup>(3)</sup>	2.54	8.58	0.84	-	6.96
Trading expense ratio (%) <sup>(4)</sup>	-	-	-	-	-
Net asset value per unit	\$12.62	\$9.62	\$8.07	\$8.41	\$8.20

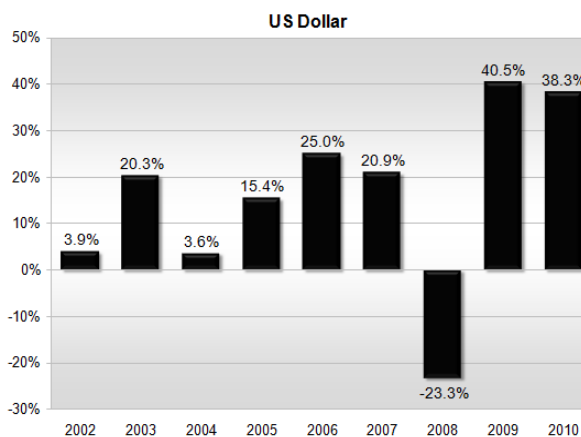
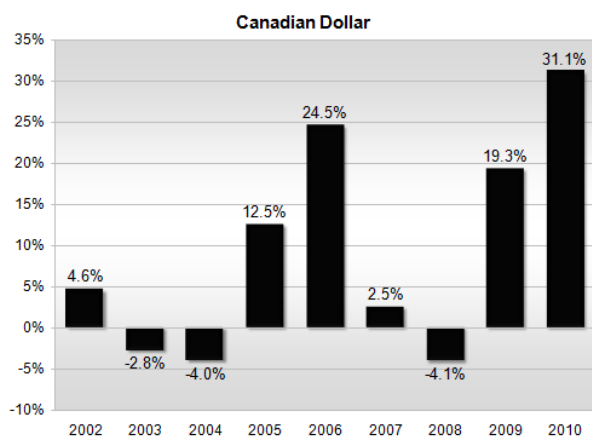
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

### 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 Fund will perform in the future.

### Year-by- Year Returns

The bar chart shows the Fund's performance for Class A units in Canadian and US dollars in each of the years shown. It illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar shows how much an investment made on January 1 would have grown or decreased by December 31 of each year shown.



**CLASS A (continued)****Annual Compound Returns**

The following table shows the annual compound total returns for the Class A units of the Fund in both Canadian dollars and US dollars to December 31, 2010. The annual returns in Canadian dollars are compared to inflation as measured by the Canadian CPI as calculated by Statistics Canada, as well as, to the Bank of Canada's 3-month Treasury Bills. The 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 the US 3-month Treasury Bills.

	<b>Since Inception (January 2002)</b>	<b>5 Years</b>	<b>3 Years</b>	<b>1 Year</b>
BMG BullionFund Class A CDN\$	8.6%	13.9%	14.5%	31.1%
Inflation (CPI, Statistics Canada)	2.2%	1.8%	1.6%	2.4%
Bank of Canada, 3-month Treasury Bills	2.5%	2.3%	1.1%	0.6%

	<b>Since Inception (January 2002)</b>	<b>5 Years</b>	<b>3 Years</b>	<b>1 Year</b>
BMG BullionFund Class A US\$	14.5%	17.6%	14.2%	38.3%
Inflation (CPI, US Dept. of Labor)	2.4%	2.2%	1.4%	1.5%
US, 3-month Treasury Bills	2.0%	2.2%	0.6%	0.1%

The above comparison demonstrates how the Fund has generally achieved its objective of preserving capital while providing appreciation over the time periods indicated. For example, over a 5-year period the performance of the Canadian Class A units was 12.1 percent above inflation while 3-month Canadian Treasury Bills returned 0.5 percent above inflation.

## CLASS F

### Financial Highlights

The following tables show selected key financial information about the Class F units of the Fund and are intended to help you understand the Fund's financial performance for the past five years. The information is derived from the Fund's audited annual financial statements

	2010	2009	2008	2007	2006
<b>Net assets - beginning of period<sup>(1)</sup></b>	<b>\$10.20</b>	<b>\$8.46</b>	<b>\$8.72</b>	<b>\$8.42</b>	<b>\$6.70</b>
<b>INCREASE (DECREASE) FROM OPERATIONS:</b>					
Total revenue	0.00	0.00	0.02	0.00	0.03
Total expenses	(0.22)	(0.19)	(0.21)	(0.20)	(0.17)
Realized gains (losses)	0.34	0.30	0.01	0.00	0.11
Unrealized gains (losses)	3.19	1.60	(0.50)	0.53	1.62
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>3.31</b>	<b>1.71</b>	<b>(0.68)</b>	<b>0.33</b>	<b>1.59</b>
<b>DISTRIBUTIONS:</b>					
From income	0.00	0.00	0.00	0.00	0.00
From dividends	0.00	0.00	0.00	0.00	0.00
From capital gains	0.00	0.00	0.00	0.00	0.00
Return of capital	0.00	0.00	0.00	0.00	0.00
<b>Total distributions</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net assets - end of period</b>	<b>\$13.51</b>	<b>\$10.20</b>	<b>\$8.46</b>	<b>\$8.72</b>	<b>\$8.42</b>
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Total net asset value <sup>(1)</sup> (000's)	\$26,591	\$19,904	\$11,991	\$8,938	\$7,759
Number of units outstanding <sup>(1)</sup>	1,968,387	1,952,322	1,417,843	1,024,903	921,562
Management expense ratio (%) <sup>(2)</sup>	1.99	1.94	2.26	2.40	2.16
Management expense ratio before waivers or absorption (%)	1.99	1.94	2.26	2.40	2.34
Portfolio turnover rate (%) <sup>(3)</sup>	2.54	8.58	0.84	-	6.96
Trading expense ratio (%) <sup>(4)</sup>	-	-	-	-	-
Net asset value per unit	\$13.51	\$10.20	\$8.46	\$8.72	\$8.42

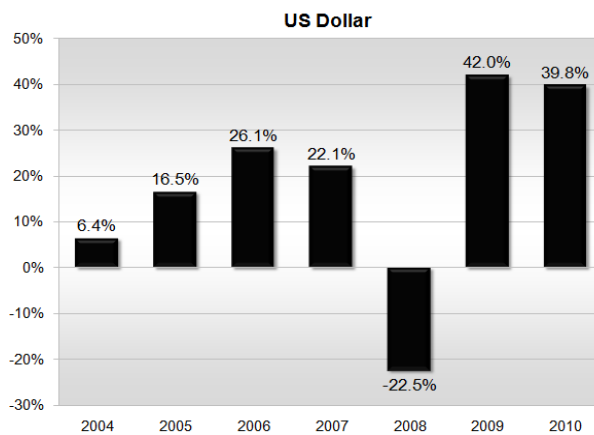
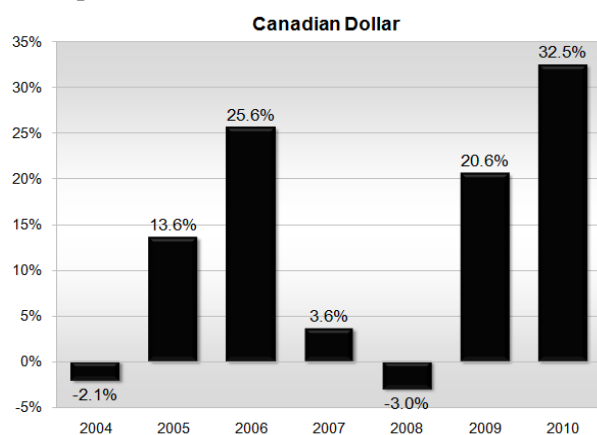
For explanatory notes, please refer to "Explanatory Notes to Financial Highlights" at the end of the section.

### 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 Fund will perform in the future.

### Year-by- Year Returns

The bar chart shows the Fund's performance for Class F units in Canadian and US dollars in each of the years shown. It illustrates how the Fund's performance has changed from year to year. In percentage terms, the bar charts indicate how much an investment made on January 1 would have increased or decreased by December 31, of each year shown. Return shown for 2004 is for the period from inception on September 15.



**CLASS F (continued)****Annual Compound Returns**

The following table shows the annual compound total returns for the Class F units in both Canadian dollars and US dollars to December 31, 2010. The annual returns in Canadian dollars are compared to inflation as measured by the Canadian CPI as calculated by Statistics Canada, as well as, to the Bank of Canada's 3-month Treasury Bills. The 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 the US 3-month Treasury Bills.

	<b>Since Inception (September 2004)</b>	<b>5 Years</b>	<b>3 Years</b>	<b>1 Year</b>
BMG BullionFund Class F CDN\$	13.7%	15.1%	15.7%	32.5%
Inflation (CPI, Statistics Canada)	1.8%	1.8%	1.6%	2.4%
Bank of Canada, 3-month Treasury Bills	2.4%	2.3%	1.1%	0.6%

	<b>Since Inception (September 2004)</b>	<b>5 Years</b>	<b>3 Years</b>	<b>1 Year</b>
BMG BullionFund Class F US\$	18.7%	18.8%	15.4%	39.8%
Inflation (CPI, US Dept. of Labor)	2.3%	2.2%	1.4%	1.5%
US, 3-month Treasury Bills	2.3%	2.2%	0.6%	0.1%

The above comparison demonstrates how the Fund has generally achieved its objective of preserving capital while providing appreciation over the time periods indicated. For example, over a 5-year period the performance of the Canadian Class F units was 13.3 percent above inflation while 3-month Canadian Treasury Bills returned 0.5 percent above inflation.

## EXPLANATORY NOTES TO FINANCIAL HIGHLIGHTS

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### Net assets per unit:

(1) This information is derived from the Fund's audited annual financial statements. In the period a fund or class is established, the financial information is provided from the date of inception to the end of the period.

(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.

### Ratios and supplemental Data:

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

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's bullion investments are traded. A portfolio turnover rate of 100 percent is equivalent to the Fund buying and selling all its bullion once in the course of the relevant period. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

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

## SUMMARY OF INVESTMENT PORTFOLIO

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As at December 31, 2010

	Allocated ounces	Unallocated ounces	Total Fine ounces	Average Cost \$	Fair Value \$	Total %
Gold Bullion	84,527.486	870.870	85,398.356	75,933,525	119,668,393	34.03
Platinum Bullion	46,146.305	746.759	46,893.064	66,574,808	80,657,092	22.94
Silver Bullion	4,940,712.093	30,985.172	4,971,697.265	68,722,007	151,316,177	43.03
<b>Total Investment</b>				<b>211,230,340</b>	<b>351,641,662</b>	<b>100.00</b>

As the Fund does not rebalance portfolio holdings, the differential over an exact 33.3 percent allocation is due to the difference in performance of each metal.

Due to ongoing portfolio transactions, the investment and percentages may have changed by the time you purchase units of the 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](http://www.bmgbullion.com).

# **BMG BullionFund**

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## Annual Financial Statements

For the Year Ended December 31, 2010



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of BMG BullionFund, which comprise the statements of net assets as at December 31, 2010 and 2009, the statement of investment portfolio as at December 31, 2010, and the statements of operations and changes in net assets for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of BMG BullionFund as at December 31, 2010 and 2009, its investments as at December 31, 2010, and its results of operations and its changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

March 18, 2011  
Toronto, Canada

## STATEMENTS OF NET ASSETS

As at December 31, 2010 and 2009

	2010	2009
	\$	\$
<b>ASSETS</b>		
Gold, silver and platinum bullion - at fair value [Average cost \$211,230,340; 2009 - \$234,743,521]	351,641,662	291,057,926
Cash	3,837,004	198,230
Subscriptions receivable	248,042	317,380
Due from Manager	-	58,767
<b>Total assets</b>	<b>355,726,708</b>	<b>291,632,303</b>
<b>LIABILITIES</b>		
Bank indebtedness	-	324,525
Management fees payable	661,429	543,266
Redemptions payable	266,818	262,749
Accounts payable and accrued liabilities	341,104	346,817
Total liabilities	1,269,351	1,477,357
<b>Net assets</b>	<b>354,457,357</b>	<b>290,154,946</b>
<b>Total net assets per class</b>		
Class A	263,031,904	217,763,617
Class E09	782,386	590,553
Class E10	331,661	312,811
Class E11	18,633,147	13,147,457
Class E15	4,117,513	3,394,288
Class F	26,590,624	19,904,429
Class G01	21,418,477	18,127,907
Class G05	1,717,796	1,191,434
Class G09	8,951,418	4,728,776
Class G10	2,425,366	1,827,100
Class G11	5,941,488	8,878,718
Class G15	515,577	287,856
	<b>354,457,357</b>	<b>290,154,946</b>
<b>Net assets per unit</b>		
Class A	12.62	9.62
Class E09	13.50	10.19
Class E10	13.55	10.21
Class E11	13.69	10.31
Class E15	13.90	10.41
Class F	13.51	10.20
Class G01	12.73	9.70
Class G05	13.81	10.47
Class G09	13.37	10.08
Class G10	13.34	10.05
Class G11	13.47	10.14
Class G15	13.90	10.41

See accompanying notes

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



Nick Barisheff,  
Director



Larry Gamble,  
Director

## STATEMENTS OF OPERATIONS

For the years ended December 31

	2010	2009
	\$	\$
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>		
Net change in unrealized appreciation of investments	84,096,917	43,167,481
Net realized gain on investments	9,317,821	7,474,624
Net realized and/or unrealized foreign exchange gain (loss)	(51,809)	38,316
Net gain on investments	93,362,929	50,680,421
<b>INVESTMENT INCOME</b>		
Early redemption fees	28,244	120,711
Other	6,620	5,760
<b>Total investment income</b>	<b>34,864</b>	<b>126,471</b>
<b>EXPENSES</b>		
Management fees [note 5]	6,058,011	5,365,608
Securityholder reporting costs	816,673	703,410
Bullion storage fees	621,263	604,535
Services tax	594,023	345,627
Other administrative expenses	163,543	70,371
Legal fees	81,250	89,000
Audit fees	47,080	105,504
Filing fees	16,523	22,424
Independent Review Committee fees	11,250	16,660
Interest and bank charges	3,446	343
<b>Total expenses</b>	<b>8,413,063</b>	<b>7,323,482</b>
<b>Expenses absorbed by Manager</b>	-	(58,767)
<b>Net investment loss</b>	<b>(8,378,199)</b>	<b>(7,138,244)</b>
<b>Increase in net assets from operations</b>	<b>84,984,730</b>	<b>43,542,177</b>
<b>Increase in net assets from operations per class</b>		
Class A	62,166,981	32,072,474
Class E09	191,833	17,524
Class E10	87,003	83,306
Class E11	4,556,231	1,810,967
Class E15	1,063,671	527,930
Class F	6,525,468	2,827,563
Class G01	5,364,847	3,004,352
Class G05	398,415	205,833
Class G09	2,083,722	862,543
Class G10	598,266	313,527
Class G11	1,823,737	1,782,331
Class G15	124,556	33,827
	84,984,730	43,542,177
<b>Increase in net assets from operations per unit</b>		
Class A	2.97	1.46
Class E09	3.31	1.12
Class E10	3.24	1.81
Class E11	3.37	2.03
Class E15	3.27	1.65
Class F	3.31	1.71
Class G01	2.92	1.58
Class G05	3.47	1.82
Class G09	3.51	1.78
Class G10	3.29	1.72
Class G11	2.83	1.84
Class G15	3.41	1.23

See accompanying notes

## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31

	Class A		Class E09	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net assets - beginning of year	217,763,617	156,147,446	590,553	136,851
Increase in net assets from operations	62,166,981	32,072,474	191,833	17,524
<b>Capital transactions</b>				
Subscriptions	48,998,780	67,826,243	-	475,139
Redemptions	(65,897,474)	(38,282,546)	-	(38,961)
<b>Total capital transactions</b>	<b>(16,898,694)</b>	<b>29,543,697</b>	<b>-</b>	<b>436,178</b>
<b>Net assets - end of year</b>	<b>263,031,904</b>	<b>217,763,617</b>	<b>782,386</b>	<b>590,553</b>

	Class E10		Class E11	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net assets - beginning of year	312,811	423,239	13,147,457	4,179,370
Increase in net assets from operations	87,003	83,306	4,556,231	1,810,967
<b>Capital transactions</b>				
Subscriptions	-	-	1,337,149	8,809,279
Redemptions	(68,153)	(193,734)	(407,690)	(1,652,159)
<b>Total capital transactions</b>	<b>(68,153)</b>	<b>(193,734)</b>	<b>929,459</b>	<b>7,157,120</b>
<b>Net assets - end of year</b>	<b>331,661</b>	<b>312,811</b>	<b>18,633,147</b>	<b>13,147,457</b>

	Class E15		Class F	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net assets - beginning of year	3,394,288	2,456,620	19,904,429	11,990,640
Increase in net assets from operations	1,063,671	527,930	6,525,468	2,827,563
<b>Capital transactions</b>				
Subscriptions	377,109	461,912	3,951,883	9,679,337
Redemptions	(717,555)	(52,174)	(3,791,156)	(4,593,111)
<b>Total capital transactions</b>	<b>(340,446)</b>	<b>409,738</b>	<b>160,727</b>	<b>5,086,226</b>
<b>Net assets - end of year</b>	<b>4,117,513</b>	<b>3,394,288</b>	<b>26,590,624</b>	<b>19,904,429</b>

	Class G01		Class G05	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net assets - beginning of year	18,127,907	15,067,975	1,191,434	998,332
Increase in net assets from operations	5,364,847	3,004,352	398,415	205,833
<b>Capital transactions</b>				
Subscriptions	1,838,195	1,293,387	284,843	73,790
Redemptions	(3,912,472)	(1,237,807)	(156,896)	(86,521)
<b>Total capital transactions</b>	<b>(2,074,277)</b>	<b>55,580</b>	<b>127,947</b>	<b>(12,731)</b>
<b>Net assets - end of year</b>	<b>21,418,477</b>	<b>18,127,907</b>	<b>1,717,796</b>	<b>1,191,434</b>

**STATEMENTS OF CHANGES IN NET ASSETS (continued)**

	Class G09		Class G10	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Net assets - beginning of year</b>	4,728,776	4,425,875	1,827,100	1,513,573
<b>Increase in net assets from operations</b>	2,083,722	862,543	598,266	313,527
<b>Capital transactions</b>				
Subscriptions	3,314,905	1,836,298	-	-
Redemptions	(1,175,985)	(2,395,940)	-	-
<b>Total capital transactions</b>	2,138,920	(559,642)	-	-
<b>Net assets - end of year</b>	<b>8,951,418</b>	4,728,776	<b>2,425,366</b>	1,827,100

	Class G11		Class G15	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Net assets - beginning of year</b>	8,878,718	8,281,524	287,856	-
<b>Increase in net assets from operations</b>	1,823,737	1,782,331	124,556	33,827
<b>Capital transactions</b>				
Subscriptions	-	296,796	103,165	254,029
Redemptions	(4,760,967)	(1,481,933)	-	-
<b>Total capital transactions</b>	(4,760,967)	(1,185,137)	103,165	254,029
<b>Net assets - end of year</b>	<b>5,941,488</b>	8,878,718	<b>515,577</b>	287,856

	Total	
	2010	2009
	\$	\$
<b>Net assets - beginning of year</b>	290,154,946	205,621,445
<b>Increase in net assets from operations</b>	84,984,730	43,542,177
<b>Capital transactions</b>		
Subscriptions	60,206,029	91,006,210
Redemptions	(80,888,348)	(50,014,886)
<b>Total capital transactions</b>	(20,682,319)	40,991,324
<b>Net assets - end of year</b>	<b>354,457,357</b>	290,154,946

*See accompanying notes*

## STATEMENTS OF INVESTMENT PORTFOLIO

As at December 31, 2010

	Allocated Ounces	Unallocated Ounces	Total Fine Ounces	Average Cost \$	Fair Value \$	Total %
Gold Bullion	84,527.486	870.870	85,398.356	75,933,525	119,668,393	34.03
Platinum Bullion	46,146.305	746.759	46,893.064	66,574,808	80,657,092	22.94
Silver Bullion	4,940,712.093	30,985.172	4,971,697.265	68,722,007	151,316,177	43.03
<b>Total Investment</b>				<b>211,230,340</b>	<b>351,641,662</b>	<b>100.00</b>

As at December 31, 2009

	Allocated Ounces	Unallocated Ounces	Total Fine Ounces	Average Cost \$	Fair Value \$	Total %
Gold Bullion	93,541.140	1,023.601	94,564.741	83,162,240	109,447,177	37.60
Platinum Bullion	52,897.061	670.162	53,567.223	75,620,517	82,326,975	28.29
Silver Bullion	5,508,698.782	65,451.075	5,574,149.857	75,960,764	99,283,774	34.11
<b>Total Investment</b>				<b>234,743,521</b>	<b>291,057,926</b>	<b>100.00</b>

BMG BullionFund'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 bullion is recorded by Refinery, Exact Weight in Ounces and Identification Number.

BMG BullionFund's 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

### 1. FORMATION OF THE FUND

BMG BullionFund (the “Fund”) was established under the laws of Ontario by a master declaration of trust and a regulation each dated January 15, 2002, as amended. Bullion Management Services Inc. (the “Manager”) is the trustee and manager of the Fund. The Fund currently offers 12 classes of units. These financial statements pertain to Class A, Class E09, Class E10, Class E11, Class E15, Class F, Class G01, Class G05, Class G09, Class G10, Class G11 and Class G15. The inception dates of the classes are as follows:

Class A	March 5, 2002	Class G01	November 1, 2006
Class E09	November 27, 2007	Class G05	June 20, 2005
Class E10	April 7, 2008	Class G09	July 6, 2005
Class E11	January 25, 2006	Class G10	May 17, 2006
Class E15	February 20, 2008	Class G11	October 14, 2005
Class F	September 15, 2004	Class G15	August 21, 2009

The Fund is also authorized to issue Class I and Class S units, none of which have been issued. All classes share the same attributes from a valuation perspective except that they are subject to different management fee rates.

The Fund invests in equal dollar proportions of unencumbered gold, silver and platinum bullion, with the objective of providing a secure, convenient, low cost, low risk alternative for investors seeking to hold bullion for capital preservation, long-term appreciation, portfolio diversification and portfolio hedging purposes. The Fund’s purchase-and-hold investment strategy and fixed purchase allocation to each bullion type eliminates the need for a portfolio manager.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates and assumptions made by the Manager that affect the amounts of assets, liabilities, income and expenses during the reporting periods. The significant accounting policies are summarized below:

#### Designation of Financial Assets and Liabilities

For the purpose of measuring and recognizing financial assets and liabilities shown on the Statements of Net Assets, each financial asset and financial liability is designated as follows: All bullion investments are initially recognized at fair value and are designated as held for trading, accounts receivable and subscriptions receivable are reported at cost and designated as financial assets. Similarly, accounts payable, redemptions payable and accrued liabilities are reported at cost and designated as financial liabilities.

#### Valuation of Investments

Gold and platinum bullion are valued at the London PM fix price, and silver bullion is valued at the London fix price – each an internationally recognized price benchmark set by the London Bullion Market Association for gold and silver, and by the London Platinum and Palladium Market for platinum. Gold and platinum have a price fix generally set twice daily and are identified by AM or PM suffixes. Silver has one price fix per day. The difference between this amount and the average cost is being shown as unrealized appreciation (depreciation) of investments.

## NOTES TO FINANCIAL STATEMENTS (continued)

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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.

CICA Handbook 3862, Financial Instruments - Disclosures, require the Fund to classify fair value measurements using a three-tier hierarchy. Bullion trades in highly active markets are classified as Level 1 - Measurement with unadjusted quoted prices in active markets. The valuation of all bullion was classified as Level 1 throughout 2010 and 2009.

### Classification of Fair Value Measurements

The Classification of fair market value measurements are as follows:

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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

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### Investment Transactions, Income and Expense Recognition

Bullion transactions are recorded on a trade date basis.

The realized gain or loss on sale of investments is calculated with reference to the average cost of the related investments.

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

### Foreign Currency Translation

Purchases and sales of investments are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions.

### Calculation of Net Asset Value ("NAV") Per Unit

The NAV of each class of units of the Fund is calculated in Canadian dollars at 4:00 pm (Eastern Time) on each day on which the London Stock Exchange and the Toronto Stock Exchange are open for trading.

The NAV per unit of each class of the Fund that is used for subscriptions and redemptions is the same as the NAV per unit of that class that is used in these financial statements.

A separate NAV is calculated for each class of units of the Fund by taking that class's proportionate share of the Fund's common assets less that class' proportionate share of the 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.

### Income Taxes

Any net taxable investment income and net realized capital gains during the year are distributed to the unitholders such that the Fund is not subject to income tax. Accordingly, no provision for income taxes has been recorded in these financial statements.

## NOTES TO FINANCIAL STATEMENTS *(continued)*

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### **Increase (Decrease) in Net Assets From Operations Per Unit**

Any increase (decrease) in net assets from operations per unit in the Statements of Operations represents the change in net assets from operations attributable to a class of units of the Fund for the year divided by the weighted average number of units of that class of the Fund outstanding during the year.

### **3. REGULATORY DEVELOPMENTS**

#### **Future Accounting Changes**

The Canadian Accounting Standards Board has announced plans to converge Canadian generally accepted accounting principles (“GAAP”) with IFRS, over a transition period expected to end in 2013.

In September 2010, the AcSB approved an optional one year deferral from International Financial Reporting Standards (“IFRS”) adoption for investment companies that are applying Accounting Guideline 18, “Investment Companies”.

Subsequent to the September 2010 announcement, the AcSB announced on January 12, 2011 to extend another year of deferral of mandatory IFRS changeover date to January 1, 2013 to prevent Canadian investment companies and segregated accounts of life insurance enterprises from having to change their current accounting treatment for controlled investees while the IASB finalizes its planned investment company standard.

The Manager has been reviewing the transitional requirements and comparing IFRS with current Canadian standards as the initial steps in its changeover plan to meet the 2013 timetable. Key elements of the plan include disclosures of the qualitative and quantitative, if any, impact on the December 31, 2012 and 2013 financial statements, and the preparation of the December 31, 2013 financial statements for the Fund in accordance with IFRS.

Based on the Manager’s current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that net assets attributable to units or NAV per unit will be impacted by the changeover to IFRS. The Manager expects that the impact of IFRS on the Fund’s financial statements will result in additional disclosure and presentation changes.

### **4. UNITHOLDERS' EQUITY**

Each unit of each class of the Fund represents an interest in the assets of that class of the Fund. All units of a class of the Fund generally have the same rights and privileges. Each unit of each class of the Fund is entitled to one vote at any meeting of unitholders of the Fund. Each unit of each class of the Fund is also entitled, subject to any management fee distributions, to participate equally in any distributions by the Fund. Fractional units of a class of the Fund are proportionately entitled to all the same rights as other units of that class of the Fund, except that they are non-voting. All units of each class of the Fund are fully paid when issued, and are generally not transferable. Units of each class of the Fund are redeemable at the option of the unitholder owning such units. The number of units of the Fund that may be issued is unlimited. The units of each class of the Fund are issued and redeemed at the NAV per unit of that class of the Fund.

**NOTES TO FINANCIAL STATEMENTS (continued)**

Unit transactions during the year ended December 31 were as follows:

	Class A		Class E09	
	2010	2009	2010	2009
<b>Balance - beginning of year</b>	22,619,864	19,354,086	57,941	16,188
Issued	4,645,894	7,439,370	-	45,965
Redeemed	(6,419,149)	(4,173,592)	-	(4,212)
<b>Balance - end of year</b>	20,846,609	22,619,864	57,941	57,941
Average units outstanding	20,998,456	21,945,323	57,941	15,683

	Class E10		Class E11	
	2010	2009	2010	2009
<b>Balance - beginning of year</b>	30,639	50,043	1,275,763	490,221
Issued	-	-	270,305	935,746
Redeemed	(6,154)	(19,404)	(185,107)	(150,204)
<b>Balance - end of year</b>	24,485	30,639	1,360,961	1,275,763
Average units outstanding	26,823	46,098	1,350,679	893,886

	Class E15		Class F	
	2010	2009	2010	2009
<b>Balance - beginning of year</b>	326,174	286,845	1,952,322	1,417,843
Issued	33,123	44,847	349,191	1,017,217
Redeemed	(63,061)	(5,518)	(333,126)	(482,738)
<b>Balance - end of year</b>	296,236	326,174	1,968,387	1,952,322
Average units outstanding	324,882	320,000	1,971,347	1,649,768

	Class G01		Class G05	
	2010	2009	2010	2009
<b>Balance - beginning of year</b>	1,868,188	1,852,500	113,759	114,333
Issued	184,662	149,761	24,906	8,000
Redeemed	(370,287)	(134,073)	(14,291)	(8,574)
<b>Balance - end of year</b>	1,682,563	1,868,188	124,374	113,759
Average units outstanding	1,836,543	1,904,546	115,010	113,124

	Class G09		Class G10	
	2010	2009	2010	2009
<b>Balance - beginning of year</b>	468,931	529,067	181,878	181,878
Issued	309,626	196,649	-	-
Redeemed	(108,999)	(256,785)	-	-
<b>Balance - end of year</b>	669,558	468,931	181,878	181,878
Average units outstanding	595,157	485,277	181,878	181,878

	Class G11		Class G15	
	2010	2009	2010	2009
<b>Balance - beginning of year</b>	875,973	987,589	27,662	-
Issued	-	31,062	9,417	27,662
Redeemed	(434,962)	(142,678)	-	-
<b>Balance - end of year</b>	441,011	875,973	37,079	27,662
Average units outstanding	645,688	971,015	36,589	27,455

## NOTES TO FINANCIAL STATEMENTS (continued)

### 5. MANAGEMENT FEES AND SALES COMMISSION

The Manager is responsible for the day-to-day activities of the Fund, providing or arranging for all required administrative services and arranging for the distribution of units of the Fund. For these services, the 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 Fund.

Class A	2.25%	Class G01	2.25%
Class E09	1.25%	Class G05	1.75%
Class E10	1.125%	Class G09	1.25%
Class E11	1.00%	Class G10	1.125%
Class E12	0.875%	Class G11	1.00%
Class E15	0.50%	Class G15	0.50%
Class F	1.25%		

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

The Manager paid trailer fees to dealers of \$2,244,484 [2009: \$2,038,083].

### 6. RELATED-PARTY TRANSACTION

The Manager held units in the following Class as at December 31:

	2010	2009
Class E15	20,193	20,193

### 7. INCOME TAX LOSS CARRYFORWARDS

The Fund has non-capital loss carry forwards of approximately \$16,921,000 [2009: \$11,141,000] available to offset future years' taxable income.

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

Year	\$
2014	\$857,000
2015	\$914,000
2026	\$888,000
2027	\$3,432,000
2028	\$5,027,000
2029	\$2,727,000
2030	\$3,076,000

## **8. FINANCIAL RISK MANAGEMENT**

The Fund's financial instruments consist primarily of cash, subscription receivables and bullion investments. The Fund's cash and bullion holdings are exposed to various types of risks including market risk, credit risk, liquidity risk, interest rate risk and currency risk. These risks and related risk management practices employed by the Fund are described below:

### **Market Risk**

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

As at December 31, 2010, the impact on the Fund's net assets if there were a 5 percent increase, or decrease, in the price of gold, silver and platinum bullion, with all other variables held constant, would be an increase, or decrease, of \$17,582,083 [2009: \$14,552,896] or 4.96 percent [2009: 5.02 percent].

The actual results will vary depending upon the quantity of bullion held and other factors and the difference may be material.

### **Credit Risk**

As at December 31, 2010 the Fund had no significant investments in debt instruments and/or derivatives. The Fund limits its exposure to credit loss by placing its cash and cash equivalents in high-credit-quality issuers. Dispositions of bullion, if any, are with a major Canadian Chartered Bank (or subsidiary thereof) that is a recognized dealer in bullion. The Fund may have credit exposure to the Canadian Chartered Bank (or subsidiary thereof) to the extent of any unsettled trades.

### **Liquidity Risk**

The Fund is exposed to daily cash redemptions of redeemable units. The Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. In addition, bullion is readily realizable and liquid. Therefore the Fund's liquidity risk is minimal. All liabilities are payable within a year.

### **Interest Rate Risk**

The majority of the Fund's financial assets and liabilities were non-interest-bearing as at December 31, 2010. Accordingly, the Fund is not directly exposed to significant risk due to fluctuations in the prevailing levels of market interest rates.

### **Currency Risk**

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

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

As at December 31, 2010, 99.6 percent [2009: 100.4 percent] of the Fund's net assets were exposed to US dollars. If the exchange rate with the Canadian dollar increased or decreased by 1 percent, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$3,531,764 [2009: \$2,912,051].

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

**Foreign Currency Exposure****December 31, 2010**

<b>Description</b>	<b>US \$</b>	<b>Canada \$</b>	<b>Total \$</b>
<b>Cash</b>	1,625,802	2,211,202	3,837,004
<b>Bullion</b>	351,641,662	-	351,641,662
<b>Other Net Assets</b>	(91,082)	(930,227)	(1,021,309)
<b>Net Assets</b>	353,176,382	1,280,975	354,457,357
<b>Percent</b>	99.6%	0.4%	

**December 31, 2009**

<b>Description</b>	<b>US \$</b>	<b>Canada \$</b>	<b>Total \$</b>
<b>Cash</b>	198,230	(324,525)	(126,295)
<b>Bullion</b>	291,057,926	-	291,057,926
<b>Other Net Assets</b>	(51,087)	(725,598)	(776,685)
<b>Net Assets</b>	291,205,069	(1,050,123)	290,154,946
<b>Percent</b>	100.4%	-0.4%	

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## CORPORATE INFORMATION

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