

# **SILVER BULLION TRUST**

**ANNUAL INFORMATION FORM**  
for the year ended December 31, 2011



February 15, 2012

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## **DOCUMENTS INCORPORATED BY REFERENCE**

Financial Statements and Notes thereto are contained in the 2011 Annual Report on pages 3 to 10.

Management's Discussion and Analysis of Financial Condition is contained in the 2011 Annual Report on pages 14 to 21.

Information Circular dated March 1, 2011 for the 2<sup>nd</sup> Annual Meeting of Unitholders held on April 28, 2011.

## **REPORTING CURRENCY AND FINANCIAL INFORMATION**

**Currency amounts in this Annual Information Form and the documents which are incorporated herein by reference are stated in United States dollars, except where otherwise specifically stated. As of February 15, 2012, the Bank of Canada noon exchange rate was U.S. \$1.00 = Cdn. \$ 0.9965**

## **ESTABLISHMENT OF SILVER BULLION TRUST**

Silver Bullion Trust (“SBT”) is a passive, self-governing, single purpose trust established by a declaration of trust under the laws of the Province of Ontario on June 8, 2009. The declaration of trust was amended and restated on July 9, 2009 (the “Declaration of Trust”) SBT was created to hold silver bullion on behalf of investors and to provide investors with exchange-tradeable units (the “Units”) of ownership. The principal and head office of SBT is located at 55 Broad Leaf Crescent, Ancaster, Ontario, Canada L9G 3P2. SBT’s mailing address is Box 10106 Meadowlands Post Office, Ancaster, Ontario, Canada L9K 1P3.

## **DESCRIPTION OF THE BUSINESS**

### ***General***

SBT is a silver holding trust created to buy and hold substantially all of its assets in long-term holdings of silver bullion. The primary objective of SBT is to provide a secure, convenient, low-cost, exchange-tradeable alternative for investors interested in holding an investment in silver bullion. SBT’s physical silver is stored on an allocated and segregated basis in the underground treasury vaults of one of the largest banks in Canada.

All silver bullion owned by SBT must be stored in Canada in the treasury vault facilities of a tier 1 Canadian chartered bank on an allocated and segregated basis. The term “treasury vault” means a vault that has the highest security rating for treasury storage purposes and that has the qualifications for storage on behalf of the Bank of Canada. SBT has entered into a storage and safekeeping agreement (the “Storage and Safekeeping Agreement”) dated July 13, 2009 with the Canadian Imperial Bank of Commerce (the “Bank”), pursuant to which the Bank has agreed to store and safeguard silver bullion owned by SBT in accordance with the Declaration of Trust.

### ***Investment Policies and Restrictions***

SBT holds long-term holdings of pure, refined and unencumbered silver bullion, in London Bullion Market Association recognized Good Delivery international bars (0.999 purity, circa 1,000 troy ounces), and does not speculate with regard to short-term changes in silver prices. This foundation provides investors with the ability to invest in unencumbered silver bullion in a convenient, exchange-tradable and secure manner without the associated inconvenience and high transaction, handling, storage, insurance and other costs typical of direct silver bullion investment.

In furtherance of the purpose of SBT, the Trustees have established the following policies and restrictions:

1. Pursuant to the Declaration of Trust, at least 90% of the net assets of SBT must be held in pure, refined silver bullion in bar form and such policy may only be amended by a resolution of the Unitholders. The current policy of SBT approved by its Board of Trustees is more restrictive, requiring that at least 95% of the total net assets of SBT be held in silver with at least 90% in physical bullion and up to 5% in silver certificate form.
2. All silver bullion owned by SBT must be unencumbered and SBT may not enter into any borrowing arrangements except in strictly limited circumstances to facilitate bullion purchase payments. SBT may enter into short-term borrowing arrangements only under such circumstances, and all outstanding borrowings in this regard must not, at anytime, exceed 10% of SBT’s net assets.
3. No part of the physical silver bullion held in storage on behalf of SBT may be delivered out of safekeeping by the Bank without receipt of a certified resolution of the Board of Trustees specifying the purpose of the delivery and giving direction with respect to specific amounts.
4. No Trustee or Officer of SBT, or appointed representative of SBT or the Administrator, is authorized to enter the treasury vault facilities designated for the storage of SBT’s silver bullion without being accompanied by a representative of the Auditors of SBT and one or more representatives of the Bank.
5. The silver bullion held in storage on behalf of SBT shall be inspected annually, and spot inspected periodically, by bar number, refiner, weight and purity, in the presence of at least one Trustee or Officer of SBT, at least one representative of SBT’s Auditors and one or more Bank representatives.
6. The qualifying investment status of the Units of SBT under current regulations shall be maintained.

## Administration of SBT

### *Administrative Services Agreement*

Silver Bullion Trust and Silver Administrators Ltd. (the “Administrator”) entered into an administrative services agreement (the “*Administrative Services Agreement*”) on June 8, 2009. The Administrator was incorporated on June 8, 2009 and its sole purpose is to administer the affairs of SBT. The primary administrative responsibilities of the Administrator under the *Administrative Services Agreement* are to:

- (i) keep full and complete financial, accounting and other records reflecting the financial position of SBT’s business in U.S. dollars;
- (ii) report to SBT, its Trustees and, through the press, to its Unitholders, the Net Asset Value (the “NAV”) of each Unit of SBT on at least a weekly basis. (The NAV is calculated as the total market value of silver bullion, cash and other net assets, less any and all payables, indebtedness and any other liabilities, divided by the total number of outstanding Units of SBT, and the value of silver bullion is calculated on the basis of the daily London Bullion Market Association price fixing for silver bullion. Reports of NAV in Canadian dollars are calculated with reference to the Bank of Canada’s noon exchange rate on the date that NAV is calculated;
- (iii) prepare reports to Unitholders, and regulatory filing materials and other reports to the Trustees as may be reasonably requested from time to time;
- (iv) furnish office facilities, services and supplies and generally oversee, with its staff and independent contractors, the administration of SBT;
- (v) compensate the Officers of SBT for their services, where applicable;
- (vi) fulfill its responsibilities in a manner that does not impair SBT’s ability to maintain the qualifying investment status of the Units of SBT under current regulations.

The Administrator has agreed to administer SBT’s activities in an efficient, timely and professional manner in accordance with reasonable and prudent practices.

The *Administrative Services Agreement* is for an initial term of 20 years until June 30, 2029, and will continue in force from year to year thereafter, unless terminated by SBT. SBT may terminate the *Administrative Services Agreement* at any time if the Administrator breaches any of its material obligations under the *Administrative Services Agreement* and: (i) such breach has not been cured within 120 days following notice thereof from SBT; and (ii) within a further 120 days after the expiry of such cure period, such termination is approved by either (a) a written resolution of Unitholders representing, collectively, at least 66 2/3% of the aggregate number of votes attached to the then outstanding Units of SBT or (b) a meeting of Unitholders by a resolution approved by Unitholders representing at least 66 2/3% of the votes attached to the Units of SBT which are voted at the meeting at which at least 20% of the outstanding Units are represented in person or by proxy, in all cases excluding votes attached to the outstanding Units held by or on behalf of the Administrator and its affiliates.

Under the terms of the *Administrative Services Agreement*, any directors, officers or employees of the Administrator who are also Officers of SBT, or who have been appointed as Trustees by the Administrator, shall be paid by the Administrator for serving in such capacity and shall not receive any remuneration therefor from SBT.

SBT acknowledges that the Administrator shall not be responsible for any loss of opportunity whereby the value of any of the assets of SBT, or the value of any particular silver, monetary or currency holding, could have been increased, nor shall it be responsible for any decline in value of any of the assets of SBT unless such decline is the result of the Administrator’s negligence or wilful failure to comply with express directions given by resolution of either the Board of Trustees or Unitholders of SBT.

The Administrator may, with the prior approval of the Board of Trustees, delegate to any person, firm or corporation any of its duties or obligations under the *Administrative Services Agreement*. The Administrator will also arrange, at the expense of SBT, for the engagement of the custodian(s) of SBT's assets and for its registrar and transfer agent(s).

Silver Bullion Trust will be responsible for paying all costs and expenses incurred in connection with its affairs except those that are expressly to be borne by the Administrator as referred to above. Such costs and expenses to be borne by SBT include, without limitation: (i) brokerage and trading commissions; (ii) transport fees, insurance fees, security transfer taxes, safekeeping or custodian's fees and other charges arising from the holding, purchase or sale of silver bullion or other assets by SBT; (iii) legal and audit fees; (iv) Unit offering costs; (v) fees payable for listings, the maintenance of listings and filings, or other requirements of stock exchanges on which any of the Units are listed; (vi) the cost of printing, mailing and filing financial reports and material for Unitholders' meetings, valuations, reporting to Unitholders, securities regulatory filings and any other purposes required by law; (vii) fees payable to any registrar and transfer agent of the Units; (viii) its independent Trustees' fees and expenses; and (ix) the Administrator's fees payable under the *Administrative Services Agreement*.

The independent Trustees have the express authority to engage a third party for the purpose of conducting an independent valuation of the assets of SBT.

In consideration of the Administrator carrying out its duties and obligations under the terms of the *Administrative Services Agreement*, SBT has agreed to pay to the Administrator a declining fee, on a monthly basis. Under the fee schedule, administration and consulting fees payable to the Administrator are, on a monthly basis, equal to 0.40% per annum for the first US\$100,000,000 of SBT's total net assets, 0.30% per annum for any excess over U.S.\$100,000,000 up to US\$200,000,000 of total net assets, and 0.20% per annum for any excess over U.S.\$200,000,000 of total net assets as at the month-end Valuation Date (defined as the last business day of each month on which SBT's NAV is determined). For such purposes, "total net assets" shall mean the total assets of SBT as at the Valuation Date, valuing silver bullion and other holdings at market value and cash, short-term government securities, short-term deposits with financial institutions and prime commercial paper at cost less any outstanding payables or other indebtedness of SBT. Such fees shall be payable on or before the 10th day following the end of each such month.

The Administrator and the Trustees have offered and accepted reduced fees at one-quarter of the stated rates during this initial stage of the Trust's development. At the authorized rates the Administration fee would have been \$495,865 (actual \$123,966), and Trustee fees would have been \$62,500 (actual \$15,837) for the year ended December 31, 2011.

### ***Brokerage Allocation***

Silver Bullion Trust has no pre-arrangement, formula or method for allocating the brokerage business arising from its purchases and sales of bullion. Transactions in bullion are generally done with dealers acting as principals and thus are done on a net price basis, which reflects the dealers' spread between bid and asked prices. SBT's policy is to execute all bullion transactions at the most favourable prices consistent with the best execution, considering all of the costs of the transactions, including brokerage commissions, spreads and delivery charges. This policy governs the selection of brokers and dealers and the market in which a transaction is executed.

### ***Competitive Factors***

Because silver prices are established in an extensive international market which is not dominated by any single party, SBT believes that it competes on an equal basis with other entities when buying and, should it be required, selling silver bullion.

### ***Principal Property***

The property of SBT as at December 31, 2011 was comprised of 3,143,830 ounces of pure, refined London good delivery silver bullion in bar form.

SBT's silver bars are segregated, specifically identified by refiner, bar number, and weight, and CIBC carries insurance for their custodial business. SBT's physical bullion holdings, or any portion thereof, may only be released by CIBC upon receipt of a certified resolution of SBT's Board of Trustees authorizing such release.

On July 29, 2009, the Trust, through a public offering, issued 2,600,000 Units for gross proceeds of \$26,000,000. After deducting underwriting fees of \$1,300,000, net proceeds were \$24,700,000. Each Unit was comprised of one redeemable, transferable Unit and one Warrant of the Trust. The Trust allocated the gross proceeds as follows: \$24,050,000 (\$9.25 per

Unit) to the Units and \$1,950,000 (\$0.75 per Warrant) to the Warrants. The Trust allocated the underwriting fees in the same manner between the Units and the Warrants. Costs relating to this public offering were \$404,336 and net proceeds were \$24,295,664. The net proceeds from this initial offering were used to purchase 1,680,000 ounces of silver in physical bar form at a cost of \$23,505,850. The balance of \$789,814 was retained by the Trust in interest-bearing cash deposits for working capital purposes.

On August 13, 2009, the Underwriter exercised its over-allotment option and the Trust completed the issuance of an additional 112,912 Units and 257,912 Warrants of the Trust for gross proceeds of \$1,237,870. After deducting underwriting fees of \$61,894, net proceeds were \$1,175,977. The Trust allocated the gross proceeds as follows: \$1,044,436 (\$9.25 per Unit) to the Units and \$193,434 (\$0.75 per Warrant) to the Warrants. The Trust allocated the underwriting fees in the same manner between the Units and the Warrants. This increased the total issued and outstanding Units from 2,600,000 to 2,712,912 and the total issued and outstanding Warrants from 2,600,000 to 2,857,912.

From August 13, 2009 to December 31, 2009, 246,800 Warrants were exercised at a price of U.S. \$10.00 each for total proceeds of \$2,468,000. As a result, the Units issued and outstanding increased from 2,712,912 to 2,959,712 and the Warrants outstanding decreased from 2,857,912 to 2,611,112. As at December 31, 2009, 2,611,112 Units were reserved pursuant to the warrant indenture.

For the period from January 1, 2010 until the expiry of the Warrants on April 29, 2010, 2,507,516 Warrants were exercised at a price of U.S. \$10.00 each for total proceeds of \$25,075,160. These proceeds were used to purchase 1,310,500 ounces of silver in physical bar form at a cost of \$24,195,650. The balance of \$879,510 was retained by the Trust in interest-bearing cash deposits for working capital purposes. As a result, Units issued and outstanding increased from 2,959,712 to 5,467,228 and Warrants outstanding decreased from 2,611,112 to 103,596. On April 29, 2010 the remaining 103,596 Warrants expired.

## SELECTED FINANCIAL INFORMATION

The selected financial data presented below should be read in conjunction with the Financial Statements and Notes thereto included in Silver Bullion Trust's 3<sup>rd</sup> Annual Report to Unitholders for the period ended December 31, 2011, which Financial Statements and Notes thereto are incorporated herein by reference.

The net asset value of SBT in U.S. dollar terms as set out below is identical under both Canadian and United States GAAP.

The following presentation of selected financial data for the last two fiscal years reflects the application of the AcG-18 accounting policy, which requires unrealized appreciation or depreciation of holdings to be included in current income:

	<i>Years ended December 31,</i>	
	<i>2011</i>	<i>2010</i>
Change in unrealized appreciation of holdings	\$(7.7)	\$41.0
Net income (loss) inclusive of the change in unrealized appreciation of holdings	\$(8.2)	\$40.7
Net income (loss) per Unit inclusive of the change in unrealized appreciation of holdings	\$(1.49)	\$8.59
Total net assets	\$90.4	\$98.5
Change in net assets from prior period	\$(8.1)	\$65.7
% change from prior period	(8.2)%	200.3%
Net asset value per Unit	\$16.54	\$18.02
Change in net asset value per Unit from prior period	\$(1.48)	\$6.95
% change per Unit from prior period	(8.2)%	62.8%
Silver price (U.S. \$ per ounce)	\$28.18	\$30.63
% change from prior period	(8.0)%	80.3%
Exchange rate: \$1.00 U.S. = Cdn.	\$1.0170	\$0.9946
% change from prior period	2.3%	(5.0)%

### ***Exchange Rate***

The Canadian dollar exchange rates for United States dollars for each of the years ended in the three-year period ended December 31, 2011 as reported by the Bank of Canada, was as follows:

***Year Ended December 31***

***(Cdn. \$ per U.S. \$1.00)***

	<b><i><u>Last</u></i></b>	<b><i><u>Low</u></i></b>	<b><i><u>High</u></i></b>	<b><i><u>Average</u></i></b>
<b>2011</b>	1.0170	0.9449	1.0604	0.9891
<b>2010</b>	0.9946	0.9946	1.0778	1.0299
<b>2009</b>	1.0466	1.0292	1.3000	1.1420

### **DIVIDEND POLICY**

SBT does not anticipate the payment of regular dividends. Distributions may be made in the event of any silver sales that result in net realized capital gains as indicated in Note 2(d) to the Financial Statements in SBT's 3<sup>rd</sup> Annual Report for the year ended on December 31, 2011.

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information set forth on pages 2 and 14 to 21 of SBT's 3<sup>rd</sup> Annual Report for the year ended December 31, 2011 is incorporated herein by reference.

### **STRUCTURE OF SBT**

SBT is a passive, self-governing, single purpose trust established on June 8, 2009 under the laws of the Province of Ontario by its Declaration of Trust. It is intended that SBT will continue to qualify as a mutual fund trust as defined in the Income Tax Act of Canada (the "Tax Act") to enable the flow through of any income and capital gains to Unitholders. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust. This summary does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and the full text of its provisions.

### ***Restrictions***

The Declaration of Trust provides, among other things, that SBT's activities shall be restricted to:

- (i) holding a minimum of 90% of its total net assets in physical silver bullion;
- (ii) holding no more than 10% of its total net assets in the following:
  - (a) silver certificates to enable payments, if any, to be made in connection with: the redemption of any Units or other securities of SBT; making distributions, if any, to Unitholders; and for working capital purposes; and
  - (b) cash and interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for working capital purposes;
- (iii) issuing Units (or rights, warrants, convertible securities or options to acquire Units) provided that the net proceeds per Unit to be received by SBT shall not be less than the most recently calculated NAV prior to, or upon, the authorization of such issuance;
- (iv) borrowing on a short-term basis in strictly limited circumstances to facilitate bullion purchase payments, provided that, under such circumstances, SBT may only enter into short-term borrowing arrangements for which all outstanding amounts, at any time, do not exceed 10% of SBT's total net assets;
- (v) issuing or redeeming rights and Units pursuant to any Unitholder rights plan adopted by SBT;

- (vi) purchasing securities issued by SBT subject to all applicable laws;
- (vii) satisfying any obligations or liabilities of SBT; and
- (viii) undertaking such other activities, or taking such actions as are related to or in connection with the foregoing, or as are contemplated by the Declaration of Trust, or as may be approved by the Trustees from time to time, provided that SBT shall not undertake any activity, take any action, or make any investment which would result in:
  - (a) SBT not being considered a “mutual fund trust” as defined in the Tax Act;
  - (b) the Units constituting foreign property for the purposes of computing the tax payable by SBT under Part XI of the Tax Act; or
  - (c) all or substantially all of the property of SBT consisting of property that would be “taxable Canadian property” if the definition of “taxable Canadian property” in subsection 248(1) of the Tax Act was read without reference to paragraph (b) of that definition.

### ***Units***

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal, undivided, beneficial interest in SBT, in any distributions from SBT (whether of trust income, net realized capital gains or other amounts) and in the net assets of SBT in the event of the termination or winding up of SBT. All Units are of the same class and shall rank among themselves equally and rateably without discrimination, preference or priority. The Units entitle the holders thereof to one vote for each whole Unit held at all meetings of Unitholders. Except as set out under “Redemption Rights” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

### ***Issuance of Units***

As contemplated by the Declaration of Trust, Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on such terms and conditions as the Trustees may determine, provided that the net proceeds per Unit to be received by SBT shall not be less than the most recently calculated NAV prior to the authorization for such issuance. At the option of the Trustees, Units may be issued in satisfaction of any distribution of SBT to Unitholders on a pro rata basis to the extent that SBT does not have available cash to effect such distributions. The Declaration of Trust also provides that, unless the Trustees determine otherwise, immediately after any distribution of Units to all Unitholders in satisfaction of all or part of any such distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the distribution except where tax was required to be withheld in respect of the Unitholder’s share of the distribution. Where amounts so distributed represent income, non-resident Unitholders will be subject to withholding tax and, to such extent, the consolidation will result in such non-resident Unitholders holding fewer Units.

### ***Trustees***

SBT will have a minimum of three Trustees and a maximum of eleven Trustees. The initial number of Trustees is set out in the Declaration of Trust as five and there are currently five Trustees. A change in the number of Trustees may be made from time to time by a resolution of the Trustees, which must be ratified by the Unitholders at the following Annual Meeting of Unitholders. The Trustees are to supervise the activities and manage the affairs of SBT.

Trustees shall be appointed at each Annual Meeting of Unitholders and may be appointed at a Special Meeting of Unitholders to hold office for a term expiring at the close of the next Annual Meeting, subject to their earlier resignation or removal. The Administrator is entitled to appoint two of the authorized Trustees from time to time as its nominees. The Declaration of Trust requires that a majority of the Trustees must be independent from the Senior Executive Officers of SBT and from the Administrator, and three of the current five Trustees are independent. The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of SBT assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the activities and affairs of SBT. The Declaration of Trust requires a majority of the Trustees to be Resident Canadians (as that term is defined for

Canadian tax purposes (“Resident Canadians”)) and matters decided by the Trustees must be decided by a majority of Resident Canadians. A majority of Trustees serving on a Committee of the Trustees must also be Resident Canadians. All of the current Trustees are Resident Canadians. The Trustees are responsible for, among other things: (i) maintaining records and providing reports to Unitholders; (ii) supervising the affairs of SBT; and (iii) making distributions, if any, from SBT to Unitholders on page 15 of the Declaration of Trust (see “STRUCTURE OF SBT - *Distributions*”).

Any one or more of the Trustees may resign effective at the time a written resignation is received by SBT, or at the time specified in the written resignation, whichever is later, and may be removed by a Resolution passed by a majority of the Unitholders. The vacancy created by such removal or resignation may be filled by the Trustees in the manner described in the Declaration of Trust.

A quorum of the Trustees, being a majority of the Trustees then holding office, may fill a vacancy in the Board of Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees will forthwith call a Special Meeting of the Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Unitholder may call the meeting. The Trustees in office may also appoint such Trustees as may be necessary so that a majority of the Trustees are at all times Resident Canadians.

The Trustees may, between Annual Meetings of Unitholders, appoint one or more additional Trustees, subject to there being a maximum of eleven Trustees, to serve until the next Annual Meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding Annual Meeting of Unitholders.

The Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of SBT and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Declaration of Trust provides that a Trustee shall individually be entitled to indemnification from SBT in respect of the exercise of his or her powers and the discharge of his or her duties provided that he or she shall not be indemnified if he or she fails to act in good faith with a view to the best interests of SBT or if he or she fails to comply with his or her other obligations under the Declaration of Trust.

### ***Distributions***

The primary objective of SBT is to provide a secure, convenient, low-cost, exchange-tradeable alternative for silver investors based on a passive, long term stewardship of silver holdings entrusted to it by Unitholders. SBT does not anticipate making regular distributions on its Units. The Declaration of Trust provides that, on an annual basis, for the purposes of the Tax Act, a sufficient amount of SBT’s income, and net capital gains realized during the year, if any, may be distributed, or made payable during the year, to Unitholders so that SBT will not be liable for any income tax for the year. Holders of Units who are non-residents of Canada within the meaning of the Tax Act will be required to pay all applicable withholding taxes payable in respect of any distributions of income by SBT, whether such distributions are in the form of cash or additional Units. Non-residents of Canada should consult their own tax advisors regarding the consequences of investing in the Units (see “RISK FACTORS - *Canadian and United States Federal Income Tax Considerations*” sections commencing on page 19).

In the event that SBT has insufficient distributable cash because of amounts applied to satisfy requests to redeem Units, if any, or if cash is otherwise unavailable for distribution, amounts to be distributed to Unitholders may be in the form of additional Units so as to ensure that SBT does not have a net income tax liability. Such additional Units are expected to be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

### ***Redemption Rights***

Units are redeemable at any time on demand by the holders thereof. As the Units are issued in book-entry form only (see “STRUCTURE OF SBT — *Book-Entry Only System*” on page 10), a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder’s investment dealer or other intermediary, and will be required to deliver the completed redemption notice form to CDS Clearing and Depository Services Inc. (“CDS”) in Canada or to the Depository Trust Company of the United States (“DTC”) in the United States or to a similar depository

system that may exist in other countries in which Unitholders' Units may be held. Upon receipt of a redemption notice by SBT from CDS or DTC or a participant in another depository, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive an amount per Unit (the "Redemption Price") equal to the lesser of: (i) 90% of the weighted average of the "market price" on the principal market or exchange on which the Units are quoted for trading during the ten trading day period commencing immediately following the date on which the Units were tendered for redemption (the "Redemption Date"); or, (ii) 100% of the closing market price on the principal market on which the Units are quoted for trading on the Redemption Date.

For the purposes of this calculation, "market price" will be the amount equal to the weighted average of the trading prices of the Units on the applicable market or exchange for each of the trading days on which there was a trade during the specified trading day period and, if there was trading on the applicable exchange or market for fewer than five of the trading days during the specified trading day period, the "market price" shall be the average of the following prices established for each of the trading days during the specified trading period: the average of the last bid and last asking prices of the Units for each day on which there was no trading; and the weighted average trading prices of the Units for each day that there was trading. The "closing market price" shall be: (i) an amount equal to the closing price of the Units on the applicable market or exchange if there was a trade on the specified date and the applicable exchange or market provides a closing price; (ii) an amount equal to the average of the highest and lowest prices of the Units on the applicable market or exchange if there was trading on the specified date and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; or, (iii) the average of the last bid and last asking prices of the Units if there was no trading on the specified date.

The aggregate Redemption Price payable by SBT in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the calendar month following the month in which the Units were tendered for redemption. Where SBT is required to dispose of any assets owned by SBT to pay the Redemption Price to a Unitholder, the Trustees have the discretion to treat any part or all of the income or capital gain realized by SBT in respect of such disposition as paid to and allocated to such Unitholder out of the Redemption Price.

It is anticipated that the primary mechanism for Unitholders to dispose of their Units will be through the facilities of the recognized stock exchanges on which the Units are listed for trading rather than through exercise of the redemption rights described above.

### ***Meetings of Unitholders***

Meetings of Unitholders are required to be called and held annually for the election of the Trustees and the appointment of the Auditors of SBT. The Declaration of Trust provides that the Unitholders shall be entitled to pass resolutions that will bind SBT only with respect to: the election or removal of Trustees of SBT; the appointment or removal of the Auditors of SBT; the appointment of an inspector to investigate the performance by the Trustees of their respective responsibilities and duties in respect of SBT; the termination of SBT; the approval of amendments to the Declaration of Trust (except as described below under "*Amendments to the Declaration of Trust*"); the sale of all or substantially all of the assets of SBT; any merger of SBT with any other entity; any material amendment to the *Administrative Services Agreement*; and, the dissolution or winding up of SBT prior to the end of its term.

Resolutions appointing or removing the Trustees, other than the Administrator's nominees, or the Auditors of SBT or resolutions appointing an inspector, must be passed by a majority of the votes cast by Unitholders in person or by proxy at a meeting of the Unitholders. The balance of the foregoing matters must be passed by a resolution passed by no less than 66 2/3% of the votes cast in person or by proxy at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of no fewer than 66 2/3% of the Units entitled to be voted on such resolution (a "Special Resolution").

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees, and must be convened on receipt of a written requisition signed by the holders of not less than 10% of the Units then outstanding. Such requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy, and a proxy holder need not be a Unitholder. Two persons present in person or represented by proxy, and representing in the aggregate at least 10% of the votes attached to all outstanding Units, shall constitute a quorum for the transaction of business at all such meetings.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

#### ***Amendments to the Declaration of Trust***

The Declaration of Trust may be amended or altered from time to time by Special Resolution of the Unitholders.

#### ***Term of SBT***

SBT has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 8, 2009. On a date selected by the Trustees, which is not more than two years prior to the expiry of the term of SBT, the Trustees are obligated to commence to wind-up the affairs of SBT so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of SBT, the Unitholders may, by Special Resolution, require the Trustees to commence to wind up the affairs of SBT. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of SBT, and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of SBT assets, together with any cash forming part of the assets of SBT, among the Unitholders in accordance with their pro rata interests. If the Trustees are unable to sell all or any part of the assets of SBT by the date set for termination, the Trustees may distribute all or any part of the remaining assets of SBT in kind directly to the Unitholders in accordance with their pro rata interests, subject to obtaining all required regulatory approvals. The Trustees shall have no liability for the amount received provided that they act in good faith.

#### ***Take-over Bids***

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms offered by the offeror.

#### ***Information and Reports***

SBT will furnish to Unitholders, in accordance with and subject to applicable securities laws, such financial statements of SBT (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

#### ***Book-Entry Only System***

Registration of interests in and transfers of the Units will be made only through a book-based system administered by CDS in Canada, DTC in the United States, or a similar depository system that may exist in other countries in which Unitholders may hold Units (the "Book-Entry Only System"). Units must be purchased, transferred and surrendered for redemption through a participant in the Book-Entry Only System (a "CDS Participant or a DTC Participant or a participant in another Depository, if applicable"). All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled, will be made or delivered by the Depository or the Depository Participant and from or through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholder will receive only a confirmation from the registered dealer which is a CDS Participant or a DTC Participant or a participant in another Depository, if applicable, and from or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder's interest in such Units (other than through a Depository or a Depository Participant) may be limited due to the lack of a physical certificate.

SBT has the option to terminate registration of the Units through the Book-Entry Only System, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

## OUTSTANDING CAPITAL AND MARKET FOR SECURITIES

The capital of SBT consists solely of an unlimited number of voting Units of which 5,467,228 are outstanding at the date hereof.

Silver Bullion Trust's Units have been listed on the Toronto Stock Exchange since July 29, 2009 when its initial public offering of Units was closed. CIBC Mellon Trust Company, Canada, the Registrar and Transfer Agent, maintains Unit and records in their Book-Entry Only System. On February 15, 2012, there was one registered holder of record of the Units. SBT believes that a majority of the Units are held by Canadian residents.

The following tables set forth: (i) the high and low closing market prices of SBT's Units and warrants as reported in Canadian on the Toronto Stock Exchange and the volume of trading on such exchange; (ii) the high and low net asset value per Unit in both Canadian and United States dollars based upon the daily London silver fix; and (iii) the net asset value per unit in U.S. dollars and the high and low closing prices of the Units in Canadian dollars on the Exchange on a monthly basis for 2011.

### Stock Exchange Market Prices

<b>Fiscal Period</b>	<b>Toronto Stock Exchange (Cdn. \$)</b>			<b>Toronto Stock Exchange - Warrants</b>		
	<b>High</b>	<b>Low</b>	<b>Volume</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
July 29 to December 31, 2009	13.18	10.20	2,559,393	2.61	0.40	2,037,240
January 1 to December 31, 2010	20.30	10.65	6,314,405	2.58	0.39	2,331,546
January 1 to December 31, 2011	28.00	16.30	4,381,887	-	-	-

### Net Asset Value Comparison

<b>Fiscal Period</b>	<b>Net Asset Value (Cdn. \$)</b>		<b>Net Asset Value (U.S. \$)</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
July 29 to December 31, 2009	13.07	10.00	12.44	9.12
January 1 to December 31, 2010	18.12	10.54	18.06	9.89
January 1 to December 31, 2011	27.02	15.71	28.41	15.39

<b>Fiscal Month Ended</b>	<b>Net Asset Value (U.S. \$)</b>		<b>Toronto Stock Exchange (Cdn. \$)</b>		
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
2011 January 31	18.04	15.75	19.72	16.30	373,001
February 28	19.65	16.65	22.25	17.99	287,146
March 31	22.18	19.87	24.85	20.33	678,952
April 30	28.41	22.04	28.00	23.55	641,981
May 31	25.60	19.08	23.58	20.08	847,175
June 30	22.21	19.91	23.21	19.64	224,563
July 31	23.85	19.99	25.09	21.10	228,181
August 31	25.38	22.39	27.50	22.80	387,210
September 30	24.80	16.56	27.10	20.84	232,179
October 31	20.73	16.85	22.00	19.50	140,941
November 30	20.32	18.12	23.52	20.20	125,534
December 31	19.48	15.39	21.60	17.47	215,024

## OFFICERS WHO ARE NOT TRUSTEES

The following table sets forth information as to the four Officers who are not Trustees of SBT:

<b>Name, Residence and Principal Occupation</b>	<b>Position and Office with SBT</b>	<b>Year Appointed to Position</b>
<b>William L. Trench A.C.I.S.</b> Fort Erie, Ontario Independent Consultant	Chief Financial Officer	2009
<b>Krystyna S. Bylinowski</b> Ancaster, Ontario Treasurer of Silver Administrators Ltd. and of Central Gold Managers Inc.	Treasurer	2009
<b>John S. Elder Q.C.</b> Toronto, Ontario A Counsel to Fraser Milner Casgrain LLP (Barristers & Solicitors)	Secretary	2009
<b>J. L. Michele Spicer</b> Ancaster, Ontario Assistant Secretary of Central GoldTrust and of Silver Bullion Trust	Assistant Secretary	2009

## TRUSTEES AND TRUSTEE OFFICERS

The current Trustees of SBT, and proposed nominees for re-election as Trustees at the Annual Meeting to be held on April 26, 2012 are listed below. Terms of office run from the date of election until the close of the next Annual Meeting.

<b>Name, Residence and Principal Occupation</b>	<b>Position and Office with SBT</b>	<b>Year Elected or Appointed to Position</b>
<b>Bruce D. Heagle</b> Ancaster, Ontario President, National System of Baking, Limited.	Trustee (A)(C)(I)	2009
<b>Ian M.T. McAvity</b> Toronto, Ontario Corporate Director and President, Deliberations Research Inc. (Economic Consultants)	Trustee (A)(C)(I)(L)	2009
<b>Michael A. Parente</b> Hamilton, Ontario Independent Consultant	Trustee (A)(C)(I)	2011
<b>J.C. Stefan Spicer</b> Lynden, Ontario President and CEO, Central Fund of Canada Limited and of Central GoldTrust	President, CEO and Trustee (N)	2009
<b>Philip M. Spicer</b> Ancaster, Ontario Chairman, Central Fund of Canada Limited and Chairman of Central GoldTrust	Chairman and Trustee (N)	2009

**(A) Member of Audit Committee**

See “Audit Committee matters” below,

**(C) Member of Corporate Governance and Nominating Committee**

The *Corporate Governance and Nominating Committee* is responsible for: developing SBT’s approach to governance issues; facilitating education programs for all Trustees; assessing the size and effectiveness of the Board of Trustees as a whole and of the Committees; and, assessing the contribution of individual Trustees. The Committee’s responsibility extends to ensuring that the Trustees can function independently of the Senior Executive Officers and monitoring the Trustee’s relationship to the Senior Executive Officers. It reviews the communications policy of SBT to ensure that communications to Unitholders, regulators and the investing public are factual and timely, are broadly disseminated in accordance with applicable policy and law, and treat all Unitholders fairly with respect to disclosure. The Committee meets independently of the Senior Executive Officers from time to time or as necessary. Mr. McAvity chairs the *Corporate Governance and Nominating Committee*.

**(I)** May be regarded as independent under Multilateral Instrument 52-110 entitled "Audit Committee" and Companion Policy 52-110CP of the Canadian Securities Administrators.

**(L)** Lead Trustee

**(N)** Nominee of the Administrator

**AUDIT COMMITTEE MATTERS**

The *Audit Committee* currently consists of Bruce D. Heagle, Ian M. T. McAvity and Michael A. Parente. Mr. Heagle serves as its Chairman.

Each member of the *Audit Committee* is “independent” as contemplated by Multilateral Instrument 52-110 (“MI 52-110”) of the Canadian Securities Administrators and each is financially literate, meaning that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the financial statements of SBT. Each of them, by virtue of his respective education and/or business backgrounds, as well as experience with SBT, has: (a) a base for understanding the accounting principles used by SBT to prepare its financial statements; (b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (c) experience analyzing or evaluating financial statements of the type referred to above, and experience actively supervising one or more persons engaged in such activities; and (d) an understanding of internal controls and procedures for financial reporting.

The charter of the *Audit Committee* is as follows:

*“Purpose*

The primary function of the Audit Committee is to assist the Trustees in fulfilling their oversight responsibilities by reviewing:

- (a) selection, independence and effectiveness of the external auditors;
- (b) the financial statements and other financial information and reports which will be provided to the Unitholders and others;
- (c) the financial reporting process; and
- (d) the Trust’s internal controls.

The external auditor’s ultimate responsibility is to the Trustees and the Audit Committee, as representatives of the

Unitholders. These representatives have the ultimate authority to evaluate and, where appropriate, recommend replacement of the external auditors.

The Committee shall be given full access to the Trust's records, those of Silver Administrators Ltd. (the "Administrator") and the external auditors as necessary to carry out these responsibilities.

Although the Audit Committee has the powers and responsibilities set forth in this Charter, the role of the Audit Committee is oversight. The members of the Audit Committee are not employees of the Trust or the Administrator. It is not the duty of the Audit Committee to conduct audits or to determine that the Trust's financial statements and disclosures are complete and accurate and are in accordance with Canadian generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of the Senior Executive Officers. The external auditor's responsibility is to perform an audit to determine whether the financial statements prepared by the Senior Executive Officers are in all material respects, in accordance with generally accepted accounting principles.

#### *Qualification of Members*

1. The Members of the Audit Committee (the "Committee") shall be 3 or more in number and be "independent" as defined in Multilateral Instrument 52-110 of the Canadian Securities Administrators. "Independent" for this purpose means that a member has no direct or indirect material relationship with the Trust which could, in the view of the Trustees, reasonably interfere with his or her independent judgment. Members of the Committee shall not receive any remuneration or compensation from the Trust other than remuneration for acting as a member of the Committee or other committee or as Trustee.
2. All Members of the Committee shall, as stipulated in Instrument 52-110, be "financially literate", that is to say have the ability to read and understand a set of financial statements and related notes that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Trust's financial statements.

#### *Operating Procedures*

1. The Committee shall require that the Senior Executive Officers provide for review draft annual and quarterly financial statements, annual and quarterly reports, Management's Discussion and Analysis, Annual Information Form and press releases where relevant, in a timely manner before the scheduled Committee meetings.
2. The Committee shall meet annually in February or March so as to be able to review the draft annual audited financial statements and related materials, and shall meet once in a quarter as required to review the draft first, second and third quarter unaudited financial statements and accompanying report to unitholders.
3. At least annually, the Committee shall review its effectiveness and the contribution of each of its Members.
4. The Committee shall have adequate resources and authority to discharge its responsibilities.
5. The Committee shall have the authority to engage and compensate independent counsel and other advisors which it determines are necessary to enable the Committee to carry out its duties and to communicate directly with the external and internal auditors.

#### *Relationship with External Auditor and Review Responsibilities*

1. The external auditors are accountable to the Trustees and the Committee, as representatives of the Unitholders of the Trust. As such a representative, the Committee has overall responsibility for selection of the external auditors, and recommends to the Trustees the firm of external auditors to be put forward for shareholder approval at each annual meeting of Unitholders. The Committee will only select external auditors who (a) participate in the oversight program of the Canadian Public Accountability Board (the "CPAB") and (b) are in good standing with the CPAB.

2. The Committee annually reviews and discusses a letter from the external auditors detailing factors that might have an impact on the auditors' independence and objectivity, including all services provided and fees charged by the external auditors. The Committee satisfies itself regarding the independence of the auditors and reports its conclusions, and the basis for those conclusions, to the Trustees.
3. The Committee reviews and recommends to the Trustees for approval the annual audited financial statements and accompanying report to Unitholders as well as related documents, such as the Annual Information Form or equivalent filings and the Management's Discussion and Analysis.
4. The Committee also reviews and recommends to the Trustees for approval the unaudited financial statements for the first, second and third quarters and related reports to Unitholders.
5. The Committee is responsible for approving the scope of the annual audit, the audit plan, the access granted to the Trust's and the Administrator's records and the co-operation of management in any audit and review function.
6. The external auditor is required to present to and discuss with the Committee, its views about the quality of the implementation of Canadian GAAP, with a particular focus on the accounting estimates and judgments made by the Senior Executive Officers and their selection of accounting principles. The Committee meets in private with appropriate Senior Executive Officers and separately with the external auditors to share perceptions on these matters, discuss any potential concerns and agree upon appropriate action plans.
7. The Committee is responsible for reviewing the work of the external auditors, including their findings and recommendations, as well as the Senior Executive Officers' response to any such findings and recommendations, and resolving any disagreements between them and the external auditors regarding financial reporting.
8. The Committee should pre-approve any audit and non-audit services to be provided by its external auditors.
9. The Committee is responsible for assessing the effectiveness of the working relationship of the external auditors with the Senior Executive Officers.
10. The Committee is responsible for reviewing the performance of, and approving the fees charged by the external auditors.
11. The Committee is also responsible, when circumstances dictate, for recommending to the Trustees the removal and replacement of external auditors.
12. The Committee shall establish procedures for dealing with complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Officers of the Trust or officers and employees of the Administrator regarding such matters (i.e. whistle-blowing).
13. The Committee shall review and approve the hiring by the Administrator of employees and former employees of the external auditors who were involved in the Trust's accounts.
14. The Committee shall review and comment to the Trustees on all related-party transactions.
15. The Committee shall review any change in the Trust's code of ethics for Senior Financial Officers.
16. The Committee shall review the relevant portions of any prospectuses, registration statements, information circulars and other reporting issuer or disclosure statements of the Trust involving and as related to financial disclosure.

#### *Relationship to Internal Audit*

1. The Committee is responsible for reviewing and approving Senior Executive Officers' decisions relating to any potential need for internal auditing, including whether this function should be outsourced and, if such function is outsourced, to approve the supplier of such service.

2. The Committee is responsible for ensuring that Senior Executive Officers have designed and are implementing an effective system of internal controls over financial reporting.

*Disclosure*

1. The Committee shall provide a report annually to the Unitholders, as part of the Management Information Circular for the Annual Meeting, which briefly summarizes the nature of the activities of the Committee.

*Procedures*

1. The times and locations of meetings of the Committee, the calling of such meetings and all aspects of procedure at such meetings shall be determined by the Committee, as the case may be, provided that in every case:

(a) the presence of at least two Members shall be necessary to constitute a quorum; and

(b) the acts of the Committee or any sub-committee, at a duly constituted meeting, shall require no more than the vote of a majority of the Members present and that, furthermore, in any circumstance, a resolution or other instrument in writing signed by all Members of the Committee shall avail as the act of the Committee.

2. The Secretary, failing which the Assistant-Secretary of SBT, shall be the Secretary of the Committee.”

The following table sets out information with respect to the fees of the Auditor, Ernst & Young LLP, for the initial fiscal period of the Trust:

<u>Fiscal Period Ended</u>	<u>Audit Fees</u>	<u>All Other Fees</u>
December 31, 2011	\$40,274	-
December 31, 2010	\$52,556 <sup>(1)</sup>	-

Note (1): Includes review of financial information and financial statement preparation for public offerings of Units of the Trust.

**OTHER COMMITTEE MATTERS**

*The Corporate Governance and Nominating Committee*, which is comprised of three independent Trustees, is responsible for developing SBT’s approach to governance issues; reviewing the effectiveness of the Board’s practices in light of emerging and changing regulatory requirements; proposing new nominees to the Board; developing awareness programs for them; assessing the size, composition and effectiveness of the Board as a whole and of the Committees as well as assessing the contribution of individual Board members. The Committee’s responsibility extends to ensuring that the Board can function independently of the Senior Executive Officers and monitoring the Board’s relationship to the Senior Executive Officers. It reviews the communications policy of SBT to ensure that communications to Unitholders, regulators and the investing public are factual and timely, are broadly disseminated in accordance with applicable policy and law and to ensure that such communications treat all Unitholders fairly with respect to disclosure. The Committee recommends topics of interest or importance for discussion and/or action by the Board. It annually reviews Board and Committee effectiveness including their operations, the timing and adequacy of the materials provided to Trustees or Committee members, the continuing qualifications and contributions of individual members as well as conflicts of interest and time commitments. It also reviews the adequacy and form of the compensation of Trustees to ensure that the compensation realistically reflects the responsibilities and risks involved in being an effective Trustee. The Committee is also responsible for approving the engagement by one or more Trustees of an outside legal or other advisor at the expense of SBT, should such extraordinary circumstances arise.

All Members of the *Corporate Governance and Nominating Committee* are “independent” as such term is used in Multilateral Instrument No. 58-110.

## **PROMOTER**

The Administrator may be considered to be the promoter of SBT within the securities legislation of Ontario and certain other provinces of Canada. The Administrator does not hold any Units of SBT and does not receive any direct or indirect benefits as a result of its relationship to SBT other than as described under the “*Administrative Services Agreement*” above.

## **RISK FACTORS**

Unitholders and prospective investors should consider the following factors relating to the affairs and primary asset of SBT:

### ***Silver Price Volatility***

SBT’s purpose is to buy and hold silver bullion and, incidental thereto, minor amounts of silver certificates. The principal factors that will affect the price of the Units of SBT are factors which affect the prices of silver. SBT’s silver bullion assets are tradeable internationally and are denominated in U.S. dollars. As at December 31, 2011, SBT’s assets were invested 98% in silver bullion and 2% in cash and other working capital.

SBT will not engage in any borrowing, leasing, lending or hedging activities involving its assets, so the price of its Units will depend on, and typically fluctuate with, the price fluctuations of silver.

The price of silver may be affected at any time by various unpredictable international, economic, monetary and political factors including:

- Global silver supply and demand, which is influenced by such factors as: (i) forward selling by silver producers; (ii) purchases made by silver producers to unwind silver hedge positions; and (iii) production and cost levels in major silver-producing countries;
- Investors’ expectations with respect to future inflation rates;
- Exchange rate volatility of the U.S. dollar, the principal currency in which the price of silver is generally quoted;
- Interest rate volatility; and
- Unexpected global, or regional, political or economic incidents.

Changing tax, royalty and land and mineral rights ownership and leasing regulations under different political regimes can impact market functions and expectations for future silver supply. This can impact both silver mining shares, and the relative prices of other commodities, which can also be competitive factors that impact investor decisions in respect to investing in silver and in the Units.

### ***Foreign Exchange Rates***

SBT will maintain its accounting records, purchase silver and report its financial position and results in U.S. currency. However, certain of SBT’s expenses will be paid in Canadian currency. Therefore, because exchange rate fluctuations are beyond the Trust’s control, there can be no assurance that such fluctuations will not have an effect on SBT or on the trading price of its Units or Warrants.

### ***Uninsured and Underinsured Losses***

All of the silver bullion owned by SBT will be stored on an unencumbered and allocated basis in the treasury vaults of a Canadian bank in segregated safekeeping. Such Custodian maintains insurance with regard to its business and bullion storage on such terms and conditions as it considers appropriate. There can be no assurance that such insurance coverage will be extended to assets of the SBT and, if so, if such coverage will be sufficient to cover losses that could be incurred by the Custodian.

### ***Silver as a By-Product***

A significant portion of world silver production is derived from ores valued primarily for their metals other than silver (e.g. base metals such as copper, lead and zinc). Accordingly, silver production, and therefore silver prices, may be influenced by fluctuations in the demand and/or prices of other metals. Metals prices are subject to significant fluctuations and are affected by a number of factors which are beyond the control of SBT.

### ***Net Asset Value***

The net asset value of SBT's silver assets is to be based on the London daily silver price fixing reported for silver bullion. Accordingly, the market value of the Units of SBT may, at any time, be greater or less than the realizable value of the underlying assets being primarily the silver bullion, silver certificates and cash owned by SBT. SBT has no control over the factors that affect the value of the silver bullion held by SBT, including factors that affect silver prices generally such as general economic and political conditions and fluctuations in interest rates, and other factors unique to the silver industry.

### ***Concentration Risk***

SBT will be invested at all times in physical silver bullion and, incidental thereto, minor amounts of silver certificates, subject to the investment restrictions of SBT. SBT's holdings will not be diversified and the net asset value per SBT Unit may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time. This may have a negative impact on the value of the securities of SBT.

### ***Nature of Trust Units***

As holders of Units of SBT, Unitholders do not have the statutory rights normally associated with the ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The SBT Units represent a fractional interest in SBT. SBT's primary asset is silver bullion.

### ***Risks Related to Redemption***

If holders of a substantial number of Units exercise their redemption rights, the number of Units outstanding and the net assets of SBT could be significantly reduced. If a substantial number of SBT Units are redeemed, this could decrease the liquidity of the Units in the market and increase the management expense ratio of SBT. In any such circumstance, the Administrator may determine it appropriate to (i) suspend redemptions of Units (as described under "Redemptions"); or (ii) terminate SBT without the approval of the Unitholders if, in the opinion of the Administrator it is no longer economically feasible to continue SBT or the Administrator determines that it would be in the best interests of Unitholders to terminate SBT.

### ***Silver Market Liquidity***

Upon those infrequent occasions when the Trust is a buyer of silver at the time of an offering and issue of Units, on a non-dilutive basis, such buying may have a minor influence on the price of silver and the market value of silver already held by the Trust. Any substantial redemptions of Trust Units and related sales of silver, although highly unlikely, could have a minor adverse effect on the price silver and the Trust's holdings thereof. Such market risks are more likely to result from the buying and selling activities of other parties.

### ***Potential Unitholder Liability***

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with: (i) the ownership and use of SBT's assets; (ii) the obligations, liabilities, activities or affairs of SBT; (iii) any actual or alleged act or omission of the Trustees, or by any other person, in respect of the activities or affairs of SBT; (iv) any act or omission of the Trustees, or any other person, in the performance or exercise, or purported or attempted performance or exercise, of any obligation, power, discretion or authority conferred upon the Trustees, or such other person, in respect of the activities or affairs of SBT; (v) any transaction entered into by the Trustees, or by any other person, in respect of the activities or affairs of SBT; or (vi) any taxes, levies, imposts, or charges or fines, penalties or interest in respect thereof payable by SBT or by the Trustees, or by any other person, (except the Unitholder or beneficial Unitholder to the extent

required by applicable tax laws) on behalf of, or in connection with, the activities or affairs of SBT (collectively, “Trust Liabilities”).

Further, during 2004, the Government of Ontario enacted the *Trust Beneficiaries’ Liability Act, 2004*. This statute provides investors in unit trusts that are reporting issuers and governed by the laws of Ontario, such as SBT, with the same type of limited liability that is enjoyed by shareholders of corporations. Similar legislation has been passed in the Provinces of British Columbia, Alberta, Manitoba and Saskatchewan.

It is intended that the affairs of SBT will be conducted to seek to minimize such risk wherever possible and no Unitholder or beneficial Unitholder in its capacity as such shall be liable to indemnify the Trustees, or any other person, with respect to any Trust Liabilities. Further, the Declaration of Trust provides that to the extent that any Unitholder may be determined by a judgment of a court of competent jurisdiction to be subject to, or liable in respect of any Trust Liabilities, such judgment and any writ of execution shall be enforceable only against, and shall be satisfied only out of the Units held by, such Unitholder. If any Unitholder or beneficial Unitholder shall be held personally liable as such to any other person in respect of any Trust Liabilities, such Unitholder shall be entitled to indemnity and reimbursement out of SBT assets to the full extent of such liability and for all costs of any litigation or other proceedings in which such liability shall have been determined, including, without limitation, all fees and disbursements of counsel. However, the Trustees shall have no liability to reimburse Unitholders for taxes assessed against them by reason of their ownership of Units.

#### ***Reliance on Trustees and Administrator***

SBT is a self-governing unit trust that is governed by the Trustees appointed and elected by the Unitholders. SBT will, therefore, be dependent on the services of its Trustees and the Administrator for administrative services provided to SBT. The Administrator will depend to a great extent on the services of Messrs. J. C. Stefan Spicer and Philip M. Spicer, the Trustees nominated by the Administrator. There is no certainty that the individuals who are principally responsible for providing administration services to SBT will continue to be employed by the Administrator, and the loss of the services of any of such individuals for any reason may have an adverse effect on SBT.

#### ***Loss, Damage or Restriction on Access to Silver***

There is a risk that part or all of SBT’s silver could be lost, damaged or stolen, notwithstanding the handling of deliveries of bullion by and storage of bullion in the treasury vaults of a Canadian bank. Also, access to SBT’s silver bullion could be restricted by natural events or human actions. Any of these events may adversely affect the assets of SBT and, consequently, an investment in the Units.

#### ***Investment Eligibility***

The Trustees intend that the Units will be qualified investments under the Tax Act for Plans. However, there can be no assurance for the future that the Units will be qualified investments for Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

#### ***Canadian Federal Income Tax Considerations***

There can be no assurance that Canadian federal income tax laws and the administrative and assessing practices of the CRA respecting the treatment of mutual fund trusts and the tax applicable to gains and losses will not be further changed or interpreted in a manner which adversely affects Unitholders. If SBT were to cease to qualify as a “mutual fund trust” at any time or is a “SIFT trust” under the Tax Act at any time, the income tax considerations would be materially and adversely different in certain respects.

#### ***United States Federal Income Tax Considerations***

Silver Bullion Trust has been, and expects to continue to be a passive foreign investment company (“PFIC”) for United States federal income tax purposes. Under the PFIC rules, the United States federal income tax treatment of the Units is very complex and, in certain cases, uncertain or potentially unfavorable to United States Unitholders. Under current law, a non-corporate United States Unitholder (a “U.S. Holder”) who has in effect a valid election to treat SBT as a qualified electing fund (“QEF”) should be eligible for the 15% maximum United States federal income tax rate (which is

currently scheduled to increase to 20% for tax years beginning on or after January 1, 2013) on a sale or other taxable disposition of Silver Bullion Trust Units, if such Units have been held for more than one year at the time of sale or other taxable disposition. Gain from the disposition of collectibles, such as silver, however, is currently subject to a maximum United States federal income tax rate of 28%. The IRS has authority to issue Treasury regulations applying the 28% tax rate to gain from the sale by a non-corporate U.S. Holder of an interest in a PFIC with respect to which a QEF election is in effect. Although no such Treasury regulations have been issued to date, there can be no assurance as to whether, when or with what effective date any such Treasury regulations may be issued, or whether any such Treasury regulations would subject long-term capital gains recognized by a U.S. Holder that has made a QEF election on a disposition of SBT Units to the 28% rate. U.S. Holders should be aware that if they purchase units and make a QEF election, the IRS may issue regulations or other guidance, possibly on a retroactive basis, which would apply the higher 28% United States federal income tax rate to any long-term capital gain recognized on a sale of their SBT Units. U.S. Holders should consult their tax advisors regarding the implications of making a QEF election with respect to SBT.

Under the QEF rules, in the event that SBT disposes of a portion of its silver holdings, including dispositions in the course of varying its relative investment in silver, U.S. Holders who have made a QEF election may be required to report substantial amounts of income for United States federal income tax purposes (in the absence of any cash distributions received from SBT). SBT has not paid any cash distributions on its outstanding Units nor has it disposed of any portion of its silver holdings since inception. It is the intention of SBT to distribute to holders of record of Units as of the last day of each taxable year (currently December 31) an aggregate amount of cash distributions such that the amount of cash distributions payable to an electing Unitholder that holds Units for the entire taxable year of SBT will be at least equal to the product of (i) SBT's "ordinary earnings" and "net capital gains" for such taxable year allocable to such electing Unitholder and (ii) the highest marginal rate of United States federal income tax on ordinary income or long-term capital gain, as appropriate, applicable to individuals. Because these distributions, whether in cash or Units, may be subject to Canadian withholding tax and because the amount of such distributions will be determined without reference to possible United States state or local income tax liabilities or to the rate of United States federal income tax applicable to corporate United States Unitholders, such distributions may not provide an electing Unitholder with sufficient cash to pay the United States federal income tax liability arising from the inclusion in income of the electing Unitholders' pro rata share of SBT's "ordinary earnings" and "net capital gains" under the QEF rules.

Each United States Person that acquires Units, whether from SBT or in the secondary market, is strongly urged to consult its own tax advisor regarding the tax implications of such an investment.

NOTICE PURSUANT TO IRS CIRCULAR 230: NOTHING CONTAINED IN THIS RISK FACTOR CONCERNING ANY U.S. FEDERAL TAX ISSUE IS INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY A U.S. HOLDER, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES UNDER THE U.S. INTERNAL REVENUE CODE. THIS RISK FACTOR WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED BY THIS DOCUMENT. EACH U.S. HOLDER SHOULD SEEK U.S. FEDERAL TAX ADVICE, BASED ON SUCH U.S. HOLDER'S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.

### ***Regulatory Changes***

SBT may be affected by changes in regulatory requirements, customs duties and other taxes. Such changes could, depending on their nature, benefit or adversely affect SBT and its Unitholders.

### ***Competition***

An investment in the Units of SBT may be adversely affected by competition from other methods of investing in silver. SBT may be regarded as competing with other financial vehicles, including traditional debt and equity securities issued by companies in the precious metals industry and other securities backed by or linked to direct investments in silver and open-end or closed-end silver investment vehicles. Market and financial conditions, and other conditions beyond the SBT's control, may make it more attractive to invest in other financial vehicles or to invest in silver bullion directly, which could occasionally reduce the marketability for the Units.

### ***Distributions***

No distributions on the Units have been paid to date and SBT does not anticipate paying regular distributions to Unitholders. Payment of any future distributions will be at the discretion of the Board of Trustees of SBT.

### ***Conflict of Interest***

The Trustees and Officers of the SBT and the Administrator and its respective affiliates, directors and officers may provide advisory, promotion, management, investment management and other services to other entities and parties. The Trustees and Officers of SBT, and the directors and officers of the Administrator, have undertaken to devote such reasonable time as is required to properly fulfill their responsibilities in respect of the affairs of SBT, as they arise from time to time.

### ***Delivery of Silver Bullion***

In accordance with industry standards, there is a delay between the time of acquisition of the silver bullion purchased by the Trust out of the proceeds of offerings of Units and the time of actual delivery of such bullion, due to factors beyond the Trust's control.

### **ADDITIONAL INFORMATION**

No Officers of SBT receive remuneration from SBT for acting in such capacity. Messrs. P.M. Spicer, and J.C.S. Spicer receive no remuneration as Trustees from SBT and SBT does not have any employees or any retirement or benefit plans. No Trustee or Officer of SBT is, or has been or is expected to become, indebted to SBT.

The Registrar and Transfer Agents for the Units of SBT are CIBC Mellon Trust Company, the Administrative Agent for which is Canadian Stock Transfer Company Inc., at its principal transfer office in Toronto.

SBT will provide the following information, to any person, who requests it from SBT's President, Treasurer or Secretary at the Unitholder and Investor Inquiries office,

- (a) when securities of SBT are in the course of a distribution pursuant to a Base Shelf Prospectus and Prospectus Supplement, or a preliminary Base Shelf Prospectus has been filed in respect of a distribution of its securities:
  - (i) one copy of SBT's Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
  - (ii) one copy of the comparative financial statements of SBT for its most recently completed financial year, together with the accompanying report of SBT's auditor, and one copy of any of SBT's interim financial statements subsequent to the financial statements for the most recently completed financial year;
  - (iii) one copy of SBT's Information Circular in respect of the most recent Annual Meeting of Unitholders that involved the election of Trustees; and
  - (iv) one copy of any other document that is incorporated by reference into the short form prospectus or the preliminary short form prospectus and is not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any other document referred to in (a)(i), (ii) and (iii) above, provided that SBT may require the payment of a reasonable charge if the request is made by a person who is not a holder of Units of SBT.

Requests for information may be made by: calling 905-304-4653, by e-mailing [info@silverbilliontrust.com](mailto:info@silverbilliontrust.com) or by writing to Box 10106 Meadowlands P.O., Ancaster, Ontario L9K 1P3.

Additional information including Trustees' remuneration, governance matters, principal holders of SBT's Units and interests of insiders in material transactions, where applicable, is to be included in SBT's Information Circular for the 3<sup>rd</sup> Annual Meeting of Unitholders to be held on April 26, 2012. Additional financial information is provided in SBT's 3<sup>rd</sup> Annual Report for December 31, 2011. Copies of SBT's Information Circular and 2010 Annual Report may be obtained by visiting our Website at [www.silverbilliontrust.com](http://www.silverbilliontrust.com).

All public securities filings by SBT may be found on SEDAR at [www.sedar.com](http://www.sedar.com)

**SIGNATURE**

Pursuant to the requirements of Canadian Securities Commissions, the Registrant certifies that it meets all of the requirements for filing of the Annual Information Form and has duly caused this Annual Information Form to be signed on its behalf by the undersigned, thereto duly authorized.

Date: February 15, 2012

**SILVER BULLION TRUST**

By: (Signed) J.C. STEFAN SPICER

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J.C. Stefan Spicer, President and CEO