

# SILVER BULLION TRUST



1<sup>st</sup> Annual Report

December 31, 2009

## *The Role of Silver Bullion Trust*

*To serve investors as “The Silver Bullion Trust”™.*  
*To hold silver bullion on a secure basis for the convenience of investors.*

*Investment Policies & Restrictions*      The Declaration of Trust requires that at least 90% of the assets of Silver Bullion Trust (the “Trust”) be held in physical silver bullion at all times. This cannot be changed without the approval of the Unitholders.

The Trust’s physical silver holdings may not be loaned, pledged, subjected to options or otherwise encumbered in any way.

*Safeguards*      Silver bullion is stored on an allocated and segregated basis in an underground treasury vault of the Canadian Imperial Bank of Commerce (the “Bank”), one of the largest banks in Canada.

The Bank may not release any of the Trust’s physical bullion holdings without receipt of an authorizing resolution of the Board of Trustees of the Trust.

Bullion holdings and Bank vault security are inspected annually and spot inspected periodically by Trustees and/or Officers of the Trust. On each occasion, inspections are required to be performed in the presence of both the Trust’s external auditors and Bank personnel.

The Trust is subject to the regulations and reporting requirements of the Toronto Stock Exchange and various Canadian provincial regulatory authorities.

*Conveniences*      The Trust’s Units are listed on the Toronto Stock Exchange (SBT.UN in Canadian dollars and SBT.U in U.S. dollars). The Units are also quoted on the United States OTC market with symbol SVRZF. Accordingly, making a silver bullion investment through ownership of Silver Bullion Trust Units is as easy as calling one’s stockbroker or investment dealer. The Trust is advised that its Units are eligible for most types of Canadian and United States regulated capital accounts where physical bullion investment is often not permitted.

The Trust’s stock exchange listing provides a readily quoted, liquid market for the Units. The bid/ask spreads are usually considerably less than the buying and selling price spreads of direct silver bullion purchases, especially for small transactions.

Unlike many other forms of bullion investment, there are no storage or other direct costs paid by the investor. As well, there are no assay charges to the Unitholder to verify the legitimacy and/or actual silver content upon sale, redemption or liquidation of the Trust Units.

**Trustees' Report to Unitholders**

We are pleased to welcome original subscribers and subsequent investors as Unitholders of Silver Bullion Trust (the "Trust").

Silver Bullion Trust is a passive, self-governing, single purpose trust, with voting Units, that is focused upon the secure holding of silver bullion on behalf of its Unitholders. The Trust was created by a Declaration of Trust dated June 8, 2009 ("inception") and was effectively inactive until the closing of its initial public offering on July 29, 2009. This is the first year end of Silver Bullion Trust and, as such, comparative information does not exist.

Net assets at December 31, 2009 were 95.1% invested in 1,833,330 ounces of silver bullion. The investment policy adopted by the Trustees requires that a minimum of 95% of the net assets of the Trust be held in silver bullion in London Bullion Market Association ("LBMA") good delivery bar form.

The accounts of Silver Bullion Trust are denominated in U.S. dollars and, unless otherwise noted, discussion in this Report refers to U.S. dollars. Throughout this document, use of the phrase "per Unit" refers to the Trust Units.

A part of the Management's Discussion and Analysis (MD&A) for the period ended December 31, 2009, with additional comments on pages 13 to 17 of this report, is as follows:

**Net Assets** – Net assets increased to \$32.8 million during the period ended December 31, 2009. Of this amount, \$25.4 million resulted from the July 29, 2009 issuance of 2,600,000 Units and 2,600,000 Warrants and the August 13, 2009 over-allotment subscription for 112,912 Units and 257,912 Warrants. Details of the initial public offering are provided in Note 5 to the accompanying financial statements. Net assets were further increased by the exercise of 246,800 Warrants during the period for net proceeds of \$2,468,000. The balance of the increase in net assets of \$4.9 million was substantially due to a higher silver price of \$16.99 per ounce at December 31, 2009 compared to the average price of \$14.27 per ounce that was paid for the silver bullion purchased during the period.

**Expense Ratio** – Total expenses as a percentage of the average month-end net assets during the period from inception to December 31, 2009 were 0.22%.

**Net Income** – Net income since the inception of Silver Bullion Trust amounted to \$4,921,068 (\$1.82 per Unit). Virtually all of the reported income for the period represents the unrealized appreciation of silver bullion holdings, which is not distributable income, but is reported in accordance with the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 18.

**Liquidity** – All of the assets of the Trust are liquid, consisting of silver bullion, cash and interest-bearing cash deposits.

**Investment Eligibility** – According to legal and tax counsel, the Units of the Trust qualify for investment by individuals and most types of Canadian and U.S. retirement accounts, trusts, financial entities and institutions.

We are committed to the secure stewardship of Silver Bullion Trust and its silver bullion holdings to fulfill its purpose and mandate as "The Silver Bullion Trust"™.

Sincerely,  
On behalf of the Board of Trustees,



J.C. Stefan Spicer, President & CEO

February 16, 2010

**STATEMENT OF NET ASSETS**  
(expressed in U.S. dollars)

	<b>December 31, 2009</b>
<b>Net assets:</b>	
Silver at market (Note 3)	\$ 31,148,277
Cash	811,525
Short-term deposits (Note 4)	1,000,000
Prepaid expenses and other	1,768
	<u>32,961,570</u>
Accrued liabilities (Note 6)	(196,526)
<b>Net assets representing Unitholders' equity</b>	<b>\$ 32,765,044</b>
<b>Represented by:</b>	
Capital (Note 5)	
Units issued: 2,959,712	\$ 25,983,559
Warrants outstanding: 2,611,112	1,860,417
Retained earnings inclusive of unrealized appreciation of holdings	4,921,068
	<u>\$ 32,765,044</u>
<b>Net asset value per Unit (Note 2(d))</b>	<b>\$ 11.07</b>
<b>Fully diluted net asset value per Unit (Note 2(d))</b>	<b>\$ 10.57</b>
<b>Exchange rate:</b>	U.S. \$1.00 = Cdn. \$ 1.0466
<b>Expressed in Canadian dollars:</b>	
<b>Net asset value per Unit (Note 2(d))</b>	<b>\$ 11.59</b>
<b>Fully diluted net asset value per Unit (Note 2(d))</b>	<b>\$ 11.06</b>

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

"Ian M.T. McAvity"

"Bruce D. Heagle"

**STATEMENT OF CHANGES IN NET ASSETS**  
(expressed in U.S. dollars)

	<b>For the period from inception to December 31, 2009</b>
<b>Net assets at beginning of period</b>	\$ -
Increase in Unit capital (Note 5)	27,843,976
Net income inclusive of the change in unrealized appreciation of holdings	4,921,068
Increase in net assets during the period	<u>32,765,044</u>
<b>Net assets at end of period</b>	<b>\$ 32,765,044</b>

See accompanying notes to financial statements.

**STATEMENT OF INCOME**  
(expressed in U.S. dollars)

*For the period from  
inception to December 31, 2009*

<b>Income:</b>	
Interest	\$ 433
Change in unrealized appreciation of holdings	4,985,808
<b>Total income</b>	<b>4,986,241</b>
<b>Expenses:</b>	
Auditors' fees	18,000
Administration fees (Note 6)	12,913
Trustees' fees and expenses (Note 6)	7,544
Stock exchange fees	6,500
Legal fees (Note 6)	6,443
Registrar and transfer agent fees	5,799
Unitholder information	5,084
Safekeeping, insurance and bank charges	2,687
Regulatory filing fees	250
Miscellaneous	118
Foreign currency exchange loss (gain)	(165)
<b>Total expenses</b>	<b>65,173</b>
<b>Net income</b>	
inclusive of the change in unrealized appreciation of holdings	\$ 4,921,068
<b>Net income per Unit</b>	
inclusive of the change in unrealized appreciation of holdings (Note 2(d))	\$ 1.82
<b>Fully diluted Net income per Unit</b>	
inclusive of the change in unrealized appreciation of holdings (Note 2(d))	\$ 1.65

See accompanying notes to financial statements.

**STATEMENT OF UNITHOLDERS' EQUITY**  
(expressed in U.S. dollars)

*For the period from  
inception to December 31, 2009*

<b>Capital:</b> (Note 5)	
Units issued: 2,959,712	\$ 25,983,559
Warrants outstanding: 2,611,112	1,860,417
	<b>27,843,976</b>
<b>Retained earnings:</b>	
Balance at beginning of period	-
Net income inclusive of the change in unrealized appreciation of holdings	4,921,068
Balance at end of period	4,921,068
<b>Unitholders' Equity</b>	<b>\$ 32,765,044</b>

See accompanying notes to financial statements.

**Notes to Financial Statements**

**December 31, 2009**

(amounts expressed in U.S. dollars unless otherwise stated)

1. Silver Bullion Trust (the "Trust") is a passive, self-governing, single purpose closed-end trust, established under the laws of Ontario on June 8, 2009 ("inception"). The governing Declaration of Trust was amended and restated on July 9, 2009.

**2. Summary of significant accounting policies:**

The accounting policies used in the preparation of these financial statements conform with Canadian generally accepted accounting principles ("GAAP"), and are summarized below:

(a) Adoption of new accounting standards:

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels for disclosure purposes. For the Trust, this would include cash and short-term instruments. The Trust's policy and practice, is, at all times, to utilize only broadly quoted market values in active markets (Level 1) when valuing such assets. The amendments of Section 3862 did not have any impact on the fair values reported for these assets.

(b) Foreign currency exchange translation:

Canadian dollar cash deposits are translated at the rates of exchange prevailing at the end of the reporting period. Any difference between the year-end exchange rate and the exchange rate at the time such deposits were acquired is recorded in the statement of income as foreign currency exchange gain or loss. Expenses incurred in Canadian dollars are translated at the rates of exchange prevailing when the transactions occur.

(c) Silver holdings:

Silver bullion is valued at market value at the daily London Bullion Market Association fixing rate. The change in unrealized appreciation of holdings represents the change in the difference between the market value and the average cost of holdings in the period and is recorded in the Statement of Income in accordance with CICA Accounting Guideline 18. Investment transactions are accounted for on the trade date. Realized gains and losses and unrealized appreciation and depreciation are calculated on the average cost basis.

(d) Per Unit amounts:

The calculation of net income per Unit is based on the weighted average number of Units outstanding during the reporting period. The calculation of the net asset value per Unit is based on the number of Units outstanding at the end of the reporting period. The calculation of the fully diluted net asset value per Unit is based on the number of Units outstanding at the end of the reporting period and

assumes all Warrants issued and outstanding have been exercised and converted into Units at a price of \$10.00 per Unit. The calculation of fully diluted net income per Unit is based on the treasury stock method wherein the proceeds assumed to have been received on the exercise of all Warrants issued and outstanding are then assumed to be used to purchase Units at the average market price during the period. The difference between the number of Units assumed issued and the number of Units assumed purchased has been included in the denominator of the fully diluted earnings per Unit computation.

(e) **Income taxes:**

The Trust is taxed as a "Mutual Fund Trust" for income tax purposes. The Trustees may distribute all net realized capital gains and all taxable income directly earned by the Trust to its Unitholders and deduct such distributions for income tax purposes. Accordingly, there is no provision for income taxes.

(f) **Future accounting policy:**

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Public companies and trusts will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Trust's reporting for the first quarter of the fiscal year to commence on January 1, 2011 and for which the current and comparative information will be prepared under IFRS. The Trust has completed a preliminary review of the key elements within IFRS that may result in a change in accounting policies that will impact its' financial statements and accompanying note disclosures. The assessment plan being implemented by the Trust includes an initial position paper which highlights the material standards that need to be addressed under IFRS, and preparation of an opening balance sheet and draft financial statements that incorporate IFRS accounting standards and policies. The major areas of focus identified by the assessment include first year implementation decisions; statement of cash flows; classification of redeemable trust units; income taxes and more extensive note disclosure requirements. The assessment will address the impact on its accounting system and internal control required to report under IFRS beginning on the implementation date. The Trust will continue with the assessment and implementation in preparation for its first annual filing under IFRS for the year ended December 31, 2011.

**3. Silver bullion:**

Details of silver bullion holdings at December 31, 2009 are as follows:

<i>Silver holdings</i>	<i>December 31, 2009</i>
Total ounces of silver bullion	1,833,330
Cost	\$ 26,158,793
Market price – per ounce	\$ 16.99
Market value	\$ 31,148,277

**4. Short-term deposits:**

As at December 31, 2009, the Trust held one U.S. dollar fixed deposit: \$1,000,000 at a rate of 0.05% with a maturity date of January 19, 2010.

**5. Capital:**

Under the Declaration of Trust, an unlimited number of Units may be issued. Each Unit carries one vote at all meetings of Unitholders. Each Unit is transferable and represents an equal, undivided, beneficial interest in Silver Bullion Trust, in any distributions therefrom and in the net assets in the event of the termination or winding up of the Trust. There were 2,959,712 Units and 2,611,112 Warrants issued and outstanding on December 31, 2009. Each Warrant entitles the holder thereof to acquire one Unit at an exercise price of U.S. \$10.00 at any time on or before April 29, 2010.

The Units of the Trust are redeemable by a holder at any time at a price equal to the lesser of: 90% of the average market price per Unit during a 10 day trading period commencing immediately following the date on which the Units were tendered for redemption; and 100% of the closing market price per Trust Unit on the last day of the period.

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 approximately \$500,000 and net proceeds were approximately \$24,200,000. 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 \$694,150 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.

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

The stated and recorded capital of Silver Bullion Trust as at December 31, 2009 was as follows:

	<u>2009</u>
<b>Stated capital –</b>	
2,959,712 Units	\$26,483,559
2,611,112 Warrants	1,860,417
Less: Unit & Warrant issue costs	(500,000)
<b>Recorded capital</b>	<b>\$27,843,976</b>
<b>Weighted average Units outstanding</b>	<b>2,750,444</b>

#### 6. Related party transactions and fees:

Silver Bullion Trust is party to an Administrative Services Agreement with Silver Administrators Ltd. (the "Administrator"), which is related to Silver Bullion Trust through certain of its Officers and Trustees. The Administrator furnishes administrative, regulatory compliance and marketing services to Silver Bullion Trust. For such services, Silver Bullion Trust has agreed to pay an administrative fee, on a monthly basis, equal to: 0.40% per annum for the first \$100,000,000 of net assets; 0.30% per annum for any excess over \$100,000,000 up to \$200,000,000 of net assets; and, 0.20% per annum for any excess over \$200,000,000 of net assets. **The Administrator and the Trustees have offered to accept reduced fees at one-quarter of the stated rates during this initial stage of Silver Bullion Trust's development.** No Trustees' fees are paid by Silver Bullion Trust to Trustees who are nominees of the Administrator of Silver Bullion Trust. Administration fees remitted to the Administrator for the period ended December 31, 2009 were \$12,913. Included in accrued liabilities at December 31, 2009 is \$2,730 due to the Administrator.

**At authorized rates, the Administration fee would have been \$51,560 (actual \$12,913), and Trustee fees would have been \$30,000 (actual \$7,544).**

For the period ended December 31, 2009, Silver Bullion Trust incurred legal fees of \$6,443 to a legal firm to which one of Silver Bullion Trust's Officers is Counsel. A balance of \$1,000 relating to these services was included in accrued liabilities at December 31, 2009.

#### 7. Financial highlights:

	<u>December 31, 2009</u>
<i>Per Unit performance:</i>	
<b>Net asset value per Unit (upon initial issuance of Units)</b>	\$10.00
<b>Issue costs per Unit</b>	(0.69)
<b>Net asset value per Unit (net of issue costs)</b>	<b>\$ 9.31</b>
Net loss before unrealized appreciation of holdings per Unit	(0.02)
Change in unrealized appreciation of holdings per Unit	1.81
Total increase per Unit <sup>(1)</sup>	\$ 1.79
<b>Net asset value per Unit at end of period</b>	<b>\$11.07</b>
Total return	10.7%
<i>Percentages and supplemental data:</i>	
<b>Ratios as a percentage of average net assets:</b>	
Expenses <sup>(2)</sup>	0.22%
Net loss before unrealized appreciation of silver holdings <sup>(1)</sup>	0.22%

<sup>(1)</sup> This table is not meant to be a reconciliation of opening to ending NAV.

<sup>(2)</sup> Ratios not annualized.

#### 8. Management of financial risks:

The Trust has risk management policies and procedures in place to identify risks related to financial instruments. The objectives of these policies and procedures are to identify and mitigate risk. The Trust's compliance with these policies and procedures is closely monitored by the Senior Officers, the Audit Committee and the Trustees of the Trust. Market fluctuations are unpredictable and outside the control of the Trust. New risk factors may emerge from time to time and it is not possible for the Trust to predict all such risk factors.

##### *Price risk*

It is possible to determine the impact that changes in the market price of silver will have on the net asset value per unit both in U.S.\$ and Cdn.\$. Assuming as a constant exchange rate, the rate which existed on December 31, 2009 of \$1.0466 Canadian for each U.S. dollar together with the holdings of silver bullion which existed on that date, a 10% change in the price of silver would increase or decrease the net asset value per Unit by approximately U.S. \$1.05 per Unit or Cdn. \$1.10 per Unit.

##### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

When expressed in U.S. dollar terms, Silver Bullion Trust's net asset value per Unit is largely unaffected by changes in the U.S./Canadian dollar exchange rate due to the fact that nearly all of Silver Bullion Trust's net assets are silver, which is priced in U.S. dollars. Over 99.8% of Silver Bullion Trust's net assets are denominated in U.S. dollars, an increase or decrease in the value of the U.S. dollar relative to the Canadian dollar would change the net asset value per Unit as expressed in Canadian

dollars in the same direction by approximately the same percentage change in the value of the U.S. dollar.

The impact of a 5% strengthening or weakening of the Canadian dollar against the U.S. dollar applied to balances outstanding at December 31, 2009 would not have had any material impact on the net income for the period ended December 31, 2009, assuming that all other variables, in particular interest rates, remained constant.

#### *Credit risk*

Credit risk on financial instruments is the risk of loss occurring as a result of the default of an issuer on its obligation to Silver Bullion Trust. Credit risk is monitored on an ongoing basis and is managed by dealing with issuers that are believed to be creditworthy.

#### *Liquidity risk*

Although the Administrator regards all of Silver Bullion Trust's assets as highly liquid, liquidity risk might be regarded as the risk that the Trust will not be able to generate adequate cash resources to fulfill its payment obligations. However, over 95% of net assets are in the form of silver bullion which is readily tradeable in an active market and can be sold if necessary to fund the expenses referred to above.

### **9. Capital Management:**

The capital of the Trust is represented by the issued and outstanding Units and the net asset value attributable to participating Unitholders. The Trustees direct the Administrator to administer the capital of the Trust in accordance with the Trust's stated objectives and restrictions, as stipulated in the Declaration of Trust, while maintaining sufficient cash to pay the expenses of maintaining the Trust and to meet demands for redemption (if any). The Trust does not have any externally imposed capital requirements.

### ***Auditors' Report to Unitholders***

We have audited the statement of net assets of Silver Bullion Trust (the "Trust") as at December 31, 2009 and the statement of income, changes in net assets and unitholders' equity for the period ended December 31, 2009. These financial statements are the responsibility of the Trust's senior officers. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Trust's senior officers, as well as evaluating the overall financial statement presentation.

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

"Ernst & Young LLP"

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
February 11, 2010

### ***Responsibility for Financial Reporting***

The accompanying financial statements of Silver Bullion Trust (the “Trust”) and all of the information in this Annual Report are the responsibility of the Senior Executive Officers of the Trust and have been approved by the Board of Trustees and its Audit Committee.

The financial statements have been prepared by the Senior Executive Officers in accordance with Canadian generally accepted accounting principles. Financial statements may include certain amounts based on estimates and judgments. The Senior Executive Officers have determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. They have prepared financial information presented elsewhere in the Annual Report and have ensured that it is consistent with that in the financial statements.

The Trust maintains systems of internal accounting and records backup, as well as administrative and regulatory compliance controls of high quality, for a reasonable cost. Hard copies of transactions and monthly statements are retained in the Trust's files. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable, retrievable and accurate and that the Trust's assets are appropriately accounted for and adequately safeguarded.

The Board of Trustees is responsible for guiding the Administrator and overseeing Senior Executive Officers in the Board's fulfillment of its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which consists solely of independent Trustees.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Unitholders. Ernst & Young LLP has full and free access to the Audit Committee.

Ancaster, Canada, February 16, 2010



J.C. STEFAN SPICER  
*President & CEO*



WILLIAM L. TRENCH  
*Chief Financial Officer*

### ***Management's Discussion and Analysis (MD&A)***

The financial statements of Silver Bullion Trust (the “Trust”) are prepared and reported in United States dollars in accordance with the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 18 and with Canadian generally accepted accounting principles, otherwise known as Canadian GAAP. Notes to the financial statements on pages 5 through 10 should be referred to as supplementary information to this discussion and analysis.

Silver Bullion Trust is a passive, self-governing, single purpose, closed-end trust established by a declaration of trust on June 8, 2009 (“inception”). The governing declaration of trust was amended and restated on July 9, 2009 (the “Declaration of Trust”). The Trust's purpose is to acquire, hold and secure silver bullion on behalf of its Unitholders. The Trust is not an operating entity nor does it have any employees, office facilities or the potential risks thereof. The Trust retains Silver Administrators Ltd. (the “Administrator”) to attend to all administrative, compliance, consulting, accounting, reporting and investor services duties as delegated by the Administrative Services Agreement and as guided by the Trustees.

There are no off-balance sheet items, arrangements, contingencies or obligations. All accounts are fully disclosed and itemized in the financial statements.

#### ***Disclosure Controls and Procedures***

The Senior Executive Officers have ensured that there are disclosure controls and procedures in place that provide reasonable assurance that material information relating to the Trust is disclosed on a timely basis. They believe these disclosure controls and procedures have been effective during the period ended December 31, 2009.

#### ***Results of Operations – Changes in Net Assets***

Net assets increased to \$32,765,044 during the period ended December 31, 2009. Of this amount \$24,200,000 was the result of the issuance of 2,600,000 Trust Units and 2,600,000 Warrants on July 29 and \$1,175,977 was the result of the August 13, 2009 over-allotment subscription for 112,912 Trust Units and 257,912 Warrants. Details of the initial public offering are provided in Note 5 to the accompanying financial statements. Net assets were further increased by the exercise of 246,800 Warrants during the period for net proceeds of \$2,468,000. The balance of the increase in net assets of \$4,921,067 was substantially due to a higher silver price of \$16.99 per ounce at December 31, 2009 compared to the average price of \$14.27 per ounce that was paid for silver bullion purchased during the period.

#### ***Results of Operations – Net Income***

The Trust's earned income objective is secondary to its purpose of holding almost all of its net assets in silver bullion. Generally, the Trust seeks only to maintain adequate cash reserves to enable it to pay the expenses of maintaining the Trust. The Trust's realized revenues are a nominal percentage of its net assets. However, the CICA Accounting Guideline 18 requires the Trust to record unrealized appreciation (depreciation) of holdings in income.

Net income for the period from inception to December 31, 2009 amounted to \$4,921,068 (\$1.82 per Unit) (Fully diluted \$1.65 per Unit). Virtually all of the reported income for the period represents the unrealized appreciation of silver bullion holdings, which is not distributable income, and is reported in accordance with the CICA Accounting Guideline 18.

The total expenses of maintaining the Trust, expressed as a percentage of the average of the month-end net assets, were 0.22% for the period from inception to December 31, 2009.

#### **Summary of Quarterly Financial Information**

	<i>For the period from inception to Sept. 30/09</i>	<i>Quarter ended Dec. 31/09</i>	<i>Year ended Dec. 31/09</i>
Income inclusive of unrealized appreciation of holdings	\$ 4,126,523	859,718	4,986,241
Net income inclusive of unrealized appreciation of holdings	\$ 4,104,562	816,506	4,921,068
Net income per Unit inclusive of unrealized appreciation of holdings	\$ 1.53	0.29	1.82

#### **Forward-looking and Market Risk Observations**

Silver Bullion Trust is almost entirely invested in pure refined silver bullion in LBMA recognized international bar form. Therefore, the principal factors affecting the price of its Units are factors which affect the price of silver and which are beyond the Trust's control. However, the Trust believes that such factors have a lesser impact on the Units of Silver Bullion Trust than on the shares of silver producers, as silver producers have considerable inherent operational costs and other risks resulting in more volatile share prices of such producers. Silver Bullion Trust's net assets are denominated in U.S. dollars. As at December 31, 2009, the Trust's assets were made up of 95.1% silver bullion and 4.9% cash and interest-bearing deposits and other working capital amounts. The Trust does not engage in any leasing, lending or hedging activities involving these assets, so the net asset value of the Units will depend on, and typically fluctuate with, the price fluctuations of such assets. Silver bullion is traded internationally and its market prices may be affected by a variety of unpredictable, international, economic, monetary and political considerations. Macroeconomic considerations include: expectations for future rates of inflation; the strength or weakness of, and confidence in, the U.S. dollar (the currency in which the price of silver is generally quoted) and the relative value of other currencies; interest rates; and, global or regional political or economic events, including banking crises. Political factors, including market interventions and international conflicts, may also affect silver prices.

#### *Price risk*

It is possible to determine the impact that changes in the market price of silver will have on the net asset value per Unit both in U.S.\$ and Cdn.\$. Assuming as a constant exchange rate, the rate which existed on December 31, 2009 of \$1.0466 Canadian for

each U.S. dollar together with the holdings of silver bullion which existed on that date, a 10% change in the price of silver would increase or decrease the net asset value per Unit by approximately U.S. \$1.05 per Unit or Cdn. \$1.10 per Unit.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

When expressed in U.S. dollar terms, Silver Bullion Trust's net asset value per Unit is largely unaffected by changes in the U.S./Canadian dollar exchange rate due to the fact that nearly all of Silver Bullion Trust's net assets are silver, which is priced in U.S. dollars. Over 99% of Silver Bullion Trust's net assets are denominated in U.S. dollars. An increase or decrease in the value of the U.S. dollar relative to the Canadian dollar would change the net asset value per Unit as expressed in Canadian dollars in the same direction by approximately the same percentage change in the value of the U.S. dollar.

The impact of a 5% strengthening or weakening of the Canadian dollar against the U.S. dollar applied to balances outstanding at December 31, 2009 would not have had any material impact on the net income for the period ended December 31, 2009, assuming that all other variables, in particular interest rates, remained constant.

#### *Credit risk*

Credit risk on financial instruments is the risk of loss occurring as a result of the default of an issuer on its obligation to Silver Bullion Trust. Credit risk is monitored on an ongoing basis and is managed by dealing with issuers that are believed to be creditworthy.

#### *Liquidity risk*

Although the Administrator regards all of Silver Bullion Trust's assets as highly liquid, liquidity risk might be regarded as the risk that the Trust will not be able to generate adequate cash resources to fulfill its payment obligations. However, over 95% of net assets are in the form of silver bullion which is readily tradeable in an active market and can be sold if necessary to fund the expenses referred to above.

#### **Liquidity and Capital Resources**

All of Silver Bullion Trust's assets are liquid. The Trust holds small cash reserves that generate some interest income primarily to be applied to pay expenses. For the period ended December 31, 2009, the Trust's cash reserves, including cash equivalents, were \$1,811,525. The ability of the Trust to have sufficient cash to pay the expenses of maintaining the Trust and to meet demands for redemption (if any), is primarily dependent upon its cash position and its ability to realize cash flow from its cash equivalents. Should the Trust not have sufficient cash to meet its needs in the future, minor portions of the Trust's silver holdings may be sold to provide working capital and to pay for redemptions (if any) of Units. Sales of silver could result in the Trust realizing either capital gains or losses. During the period ended December 31, 2009, Silver



Bullion Trust's cash reserves increased by \$1,811,525. The primary sources and uses of cash were as follows:

#### *Sources of Cash*

The primary inflow of cash was the cash portion retained from the proceeds of the issuance of Units from the July 29 public offering, the August 13, 2009 over-allotment option and the exercise of 246,800 warrants totaling \$27,843,976. An additional \$415 was interest income earned on short-term cash deposits.

#### *Uses of Cash*

The primary outflow of cash during the year involved the purchase of silver bullion with the proceeds referred to above. Silver Bullion Trust paid \$26,158,793 to purchase 1,833,330 ounces of silver.

During fiscal 2009, total expenses were \$65,173. The difference of \$191,100 reflects the accruals and foreign currency exchange loss at December 31, 2009.

#### *Related party information*

Please refer to Note 6 on page 8 of this Annual Report.

#### *IFRS update*

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. Public companies and trusts will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Trust's reporting for the first quarter of the fiscal year to commence on January 1, 2011 and for which the current and comparative information will be prepared under IFRS. The Trust has completed a preliminary review of the key elements within IFRS that may result in a change in accounting policies that will impact its financial statements and accompanying note disclosures. The assessment plan being implemented by the Trust includes an initial position paper which highlights the material standards that need to be addressed under IFRS, and preparation of an opening balance sheet and draft financial statements that incorporate IFRS accounting standards and policies. The major areas of focus identified by the assessment include first year implementation decisions; statement of cash flows; classification of redeemable trust units; income taxes and more extensive note disclosure requirements. The assessment will address the impact on its accounting system and internal control required to report under IFRS beginning on the implementation date. The Trust will continue with the assessment and implementation in preparation for its first annual filing under IFRS for the year ended December 31, 2011.

#### *Other*

The Trust maintains its accounting records, purchases silver and reports its financial position and results in U.S. currency. However, certain of Silver Bullion Trust's expenses are paid, and the Trust's Units trade, in Canadian currency as well as U.S. 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 the Trust's accounts or on the trading value of the Trust's Units in Canadian dollars.

The Trustees will consider from time to time the issue of additional Units at a net price that would be non-dilutive to present Unitholders' net asset value per Unit. Future Unit issues to increase the Trust's asset base should enable a reduction in the expense ratio per Unit and broaden exchange trading liquidity to the advantage of all Unitholders of the Trust.

The Trust is advised that U.S. Investors investing in Silver Bullion Trust Units for taxable accounts should acquaint themselves with Passive Foreign Investment Company (PFIC) rules and Qualifying Election Forms (QEF's) which may apply to their investment in Silver Bullion Trust Units.

This Report, dated February 16, 2010, the 1<sup>st</sup> Interim Report, Annual Information Form, Notice of Annual Meeting and Information Circular, Press Releases, financial and other information are available at [www.sedar.com](http://www.sedar.com) and [www.silverbulliontrust.com](http://www.silverbulliontrust.com).

**Corporate Information**

**Trustees**

Bruce D. Heagle (A) (C) (I)  
Ian M.T. McAavity (A) (C) (I) (L)  
Robert R. Sale (A) (C) (I)  
Philip M. Spicer (N)  
J.C. Stefan Spicer (N)

**Officers**

Philip M. Spicer, Chairman  
J.C. Stefan Spicer, President & CEO  
William L. Trench, A.C.I.S., CFO  
Krystyna S. Bylinowski, Treasurer  
John S. Elder, Q.C., Secretary  
J.L. Michele Spicer, Assistant Secretary

- (A) - Member of Audit Committee
- (C) - Member of Corporate Governance & Nominating Committee
- (I) - Independent Trustee
- (L) - Lead Trustee
- (N) - Nominee of the Administrator

**Administrator**

Silver Administrators Ltd.  
Ancaster, Ontario, Canada

**Custodian**

Canadian Imperial Bank of Commerce  
Canada

**Auditors**

Ernst & Young LLP  
Toronto, Ontario, Canada

**Registrars and Transfer Agents**

CIBC Mellon Trust Company, Canada  
Mellon Investor Services LLC, U.S.A.

**Legal Counsel**

Fraser Milner Casgrain LLP  
Toronto, Ontario, Canada

**Stock Exchange Listings**

TSX Symbols:  
Units: SBT.UN (Cdn \$)  
SBT.U (U.S. \$)  
Warrants: SBT.WT (Cdn\$)  
SBT.WT.U (U.S. \$)  
U.S. OTC: SVRZF (U.S. \$)

**Unit Asset Value Information**

The net asset value per Unit is calculated daily and is available by calling Silver Bullion Trust at (905) 304-4653. The total net assets, the net asset value per Unit and the detailed basis of their calculations are posted daily at [www.silverbulliontrust.com](http://www.silverbulliontrust.com).



**SILVER BULLION TRUST**

**“The Silver Bullion Trust”**

**Phone:** 905-304-4653  
**Fax:** 905-648-4196  
**E-mail:** [info@silverbulliontrust.com](mailto:info@silverbulliontrust.com)

[www.silverbulliontrust.com](http://www.silverbulliontrust.com)

**Mailing Address:**

P.O. Box 10106  
Ancaster, Ontario  
Canada L9K 1P3

**Courier Address:**

55 Broad Leaf Crescent  
Ancaster, Ontario  
Canada L9G 3P2