

# **SILVER BULLION TRUST**



**5<sup>th</sup> Annual Report**

**December 31, 2013**



## ***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.***

***Purpose of the Trust*** Silver Bullion Trust (the “Trust”) is a passive, self-governing, single purpose, closed-end trust, with voting Units established on June 8, 2009 by a Declaration of Trust, which was amended and restated on July 9, 2009. Its purpose is to acquire, hold and secure silver bullion on behalf of its Unitholders.

***Investment Policies & Restrictions*** The Declaration of Trust requires that at least 90% of the total net assets of 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 major Canadian banks.

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 the symbol SVRZF. 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’s stock exchange listings provide readily quoted and liquid markets 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 or redemption of the Trust’s Units.

## *Trustees' Report to Unitholders*

Silver Bullion Trust is a passive, self-governing, single purpose, closed-end trust, with voting Units, that provides the secure holding of silver bullion on behalf of its Unitholders. The Trust was established on June 8, 2009 by a Declaration of Trust. The governing Declaration of Trust was amended and restated on July 9, 2009 and the Trust was effectively inactive until the closing of its initial public offering on July 29, 2009. Net assets at December 31, 2013 were 98.3% invested in silver bullion. These silver holdings consisted of 3,143,830 ounces of silver bullion.

The reporting currency of Silver Bullion Trust is the U.S. dollar and, unless otherwise noted, discussion in this Report refers to U.S. dollars.

The Trust's Units serve as a stock exchange tradeable silver bullion proxy and, according to legal and tax counsel, qualify for investment by individuals and most types of Canadian and U.S. retirement accounts, trusts, financial entities and institutions. Investors should nevertheless consult their own tax advisors with respect to the tax consequences of an investment in Silver Bullion Trust Units.

Securities regulatory authorities require that a detailed analysis of the Trust's results be provided in a "Management's Discussion and Analysis of Financial Condition and Results of Operations". Since the Trust has an Administrator and is a passive holding trust with no operations or employees, a document entitled "Management's Discussion and Analysis" ("MD&A") included herein on pages 13 through 20 inclusive, is provided by the Trust's officers to meet regulatory requirements.

Net assets decreased by \$33.2 million or 34.8% during the year to a total of \$62.3 million. This was primarily attributable to the 34.9% decrease in the market price of silver during the year which decreased the unrealized appreciation of holdings by \$32.9 million.

As a result of the above, the net asset value per Unit, as reported in U.S. dollars, decreased by 34.8% from \$17.48 to \$11.40. The net asset value per Unit, as reported in Canadian dollars, while subject to the same factors described above, decreased by a lesser rate of 30.2%, from \$17.39 to \$12.13, primarily due to a 6.9% increase in the value of the U.S. dollar relative to the Canadian dollar.

Primarily as a result of the reduction in net assets during the year, expenses as a percentage of the average month-end net assets during the 2013 fiscal year were 0.50% compared to 0.45% in 2012.

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"<sup>TM</sup>.

Respectfully submitted,  
On behalf of the Board of Trustees,



*J.C. Stefan Spicer, President & CEO*

February 11, 2014

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

	<i>As at December 31,</i>	
	<i>2013</i>	<i>2012</i>
<b>Net assets:</b>		
Silver bullion at market (Note 3)	\$ 61,304,685	94,157,709
Cash (Note 4)	1,093,232	1,476,855
Prepaid expenses and other	40,350	45,815
	62,438,267	95,680,379
Accrued liabilities (Note 6)	(96,722)	(112,272)
<b>Net assets representing Unitholders' equity</b>	<b>\$ 62,341,545</b>	<b>95,568,107</b>
<b>Represented by:</b>		
Capital (Note 5)		
Units issued: 5,467,228	\$ 53,014,800	53,014,800
Retained earnings inclusive of unrealized appreciation of holdings	9,326,745	42,553,307
	<b>\$ 62,341,545</b>	<b>95,568,107</b>
<b>Net asset value per Unit (Notes 2 (c) and 7)</b>	<b>\$ 11.40</b>	<b>17.48</b>
<b>Exchange rate:</b> U.S. \$1.00 = Cdn.	<b>\$ 1.0636</b>	<b>0.9949</b>
<b>Net asset value per Unit expressed in Canadian dollars</b>	<b>\$ 12.13</b>	<b>17.39</b>

See accompanying notes to financial statements.

*On behalf of the Board of Trustees:*

*“Ian M.T. McAvity”*

*“Bruce D. Heagle”*

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

	<i>Years ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
<b>Net assets at beginning of year</b>	<b>\$ 95,568,107</b>	<b>90,446,121</b>
<b>Add (deduct):</b>		
Net income (loss) inclusive of the change in unrealized appreciation of holdings	(33,226,562)	5,121,986
Increase (decrease) in net assets during the year	(33,226,562)	5,121,986
<b>Net assets at end of year</b>	<b>\$ 62,341,545</b>	<b>95,568,107</b>

See accompanying notes to financial statements.

**STATEMENTS OF INCOME (LOSS)**  
*(expressed in U.S. dollars)*

	<i>Years ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
<b>Income (loss):</b>		
Interest	\$ 3,035	4,678
Change in unrealized appreciation of holdings	(32,856,972)	5,567,624
<b>Total income (loss)</b>	<b>(32,853,937)</b>	<b>5,572,302</b>
<b>Expenses:</b>		
Safekeeping fees and bank charges	110,597	149,546
Administration fees (Note 6)	84,893	112,940
Trustees' fees and expenses (Note 6)	43,209	36,700
Auditors' fees	41,785	38,297
Regulatory filing fees	28,540	26,952
Legal fees (Note 6)	18,210	38,626
Stock exchange fees	17,951	18,590
Registrar and transfer agent fees	14,963	17,272
Unitholder information	12,395	11,309
Miscellaneous	82	84
<b>Total expenses</b>	<b>372,625</b>	<b>450,316</b>
<b>Net income (loss) inclusive of the change in unrealized appreciation of holdings</b>	<b>\$ (33,226,562)</b>	<b>5,121,986</b>
<b>Net income (loss) per Unit (Note 2(c))</b>	<b>\$ (6.08)</b>	<b>0.94</b>

See accompanying notes to financial statements.

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

	<i>Years ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
<b>Capital (Note 5):</b>		
Units: 5,467,228	\$ 53,014,800	53,014,800
<b>Retained earnings:</b>		
Balance at beginning of year	42,553,307	37,431,321
Net income (loss) inclusive of the change in unrealized appreciation of holdings	(33,226,562)	5,121,986
Balance at end of year	9,326,745	42,553,307
<b>Unitholders' equity</b>	<b>\$ 62,341,545</b>	<b>95,568,107</b>

See accompanying notes to financial statements.

## ***Notes to Financial Statements***

***For the years ended December 31, 2013 and 2012***

***(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, with voting Units, established under the laws of Ontario on June 8, 2009. The governing Declaration of Trust was amended and restated on July 9, 2009.

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

The Trust's accounting policies conform with Canadian generally accepted accounting principles ("GAAP") and are summarized below:

#### (a) Foreign currency exchange translation:

Canadian dollar cash deposits are translated at the rates of exchange prevailing at year end. Any difference between the year-end exchange rate and the exchange rate at the time such deposits were acquired is recorded in the Statements of Income (Loss) as a foreign currency exchange gain or loss under the caption "Miscellaneous". Expenses incurred in Canadian dollars are translated at the rates of exchange prevailing when the transactions occur.

#### (b) 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 year and is recorded in the Statements of Income (Loss) in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline 18 – Investment Companies ("AcG-18"). Transactions are accounted for on the trade date. Realized gains and losses and unrealized appreciation and depreciation are calculated on the average cost basis.

#### (c) Per Unit amounts:

The calculation of net income (loss) per Unit is based on the weighted average number of Units outstanding during the year. The calculation of the net asset value per Unit is based on the number of Units outstanding at year end. The Trust has no dilutive investments.

#### (d) 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.

## (e) Future accounting policy:

On December 12, 2011, the Accounting Standards Board of Canada decided to further extend the deferral of International Financial Reporting Standards (“IFRS”) adoption for investment companies for an additional year. Investment companies will be required to mandatorily adopt IFRS for interim and annual financial statements for fiscal periods beginning on or after January 1, 2014.

The Trust has reviewed 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 implemented by the Trust included a position paper which highlighted the material standards that needed to be addressed under IFRS and preparation of an opening statement of net assets and financial statements that incorporate IFRS accounting standards and policies. The primary areas of change as identified during this assessment include some modification in the presentation of certain statements, including a new statement of cash flows and increased note disclosure. The assessment has addressed the impact on the Trust’s accounting system and internal controls required to report under IFRS beginning on the implementation date. The Trust is ready to implement these modifications in preparation of its initial filing under IFRS, expected for the fiscal year beginning January 1, 2014.

**3. Silver bullion:**

Details of silver bullion holdings are as follows:

<i>Silver holdings at December 31</i>	<i>2013</i>	<i>2012</i>
Total ounces of silver bullion	3,143,830	3,143,830
Average cost – per ounce	\$ 16.02	16.02
Cost	\$ 50,354,443	50,354,443
Market price – per ounce	\$ 19.50	29.95
Market value	\$ 61,304,685	94,157,709

**4. Cash :**

As at December 31, 2013, the Trust held cash deposits of \$1,093,232 (2012; \$1,476,855) in a Schedule 1 Canadian bank at a variable interest rate of 0.25% per annum.

**5. Capital:**

Under the Declaration of Trust, an unlimited number of Units may be issued. There were 5,467,228 Units outstanding at December 31, 2013 and 2012. Each Unit carries one vote at all meetings of Unitholders. Each Unit is transferable and represents an equal, undivided, beneficial interest in the Trust, in any distributions therefrom and in the net assets in the event of the termination or winding up of the Trust.

The Units of the Trust are redeemable by a Unitholder at any time at a price equal to the lesser of: i) 90% of the weighted average of the market prices per Unit during a 10 day trading period commencing immediately following the date on which the



Units were tendered for redemption (the redemption date); and, ii) 100% of the closing market price per Unit on the redemption date.

It is the policy of the Trust not to issue additional Units to new investors if the result of such issue would be dilutive to existing Unitholders.

The stated and recorded capital of the Trust as at December 31, 2013 and 2012 was as follows:

	<i>2013</i>	<i>2012</i>
<b>Stated capital</b> – 5,467,228 Units	\$53,419,136	53,419,136
Less: Unit issue costs	(404,336)	(404,336)
<b>Recorded capital</b>	<b>\$53,014,800</b>	<b>53,014,800</b>
<b>Weighted average Units outstanding</b>	<b>5,467,228</b>	<b>5,467,228</b>

## 6. Related party transactions and fees:

The Trust is party to an Administrative Services Agreement with Silver Administrators Ltd. (the "Administrator"), which is related to the Trust through certain of its Officers and Trustees. The Administrator furnishes administrative, compliance and other services to the Trust. For such services, the 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 the Trust's 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. Administration fees remitted to the Administrator for the year ended December 31, 2013 decreased to \$84,893 from \$112,940 for the year ended December 31, 2012 due to the decrease in the value of net assets under administration. Included in accrued liabilities at December 31, 2013 is \$5,871 (2012: \$8,999) due to the Administrator. No Trustees' fees are paid by the Trust to the Trustees who are nominees of the Administrator of the Trust.

Since the Trust's inception, 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 fees would have been \$339,572 (actual \$84,893).

Effective January 1, 2012, the Trustees began to receive reduced fees at one-half of the stated rates. Prior to January 1, 2012, these fees were at one-quarter of the stated rates. At the authorized rates, the Trustees' fees would have been \$82,000 (actual \$43,209) for the year ended December 31, 2013.

The Trust incurred legal fees amounting to \$18,210 for the year ended December 31, 2013 (2012: \$38,626), payable to a legal firm to which one of the Trust's Officers was Counsel or principal. The Board of Trustees is of the opinion that these services were undertaken under similar terms and conditions as services with unrelated parties.

**7. Financial highlights:**

	<i>Years ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
<i>Per Unit performance:</i>		
<b>Net asset value per Unit at beginning of year</b>	\$17.48	\$16.54
Net loss before the change in unrealized appreciation of holdings	(0.07)	(0.08)
Change in unrealized appreciation of holdings	(6.01)	1.02
Total increase (decrease) <sup>(1)</sup>	(6.08)	0.94
<b>Net asset value per Unit at end of year</b>	\$11.40	\$17.48
Total return for year	(34.8)%	5.7%
<i>Percentages and supplemental data:</i>		
<b>Ratios as a percentage of average net assets:</b>		
Expenses	0.50%	0.45%
Net loss before the change in unrealized appreciation of holdings	0.49%	0.44%

The increase (decrease) per Unit is based on the weighted average number of Units outstanding during the year. The net asset values per Unit which are based on the actual number of Units outstanding at the end of the relevant reporting periods.

<sup>(1)</sup> This table is not meant to be a reconciliation of beginning to end of year net asset value per Unit.

**8. Management of financial risks:**

The Trust has risk management policies and procedures in place to identify risks related to financial instruments and physical assets. The objectives of these policies and procedures are to identify and mitigate risk. The Trust's compliance with these policies and procedures is monitored by the Senior Executive 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*

Price risk is the risk that the price of a security or physical asset may decline. It is possible to determine the impact that changes in the market price of silver bullion will have on the net asset value per Unit both in U.S. dollars and Cdn. dollars. Assuming as a constant exchange rate, the rate which existed on December 31, 2013 of \$1.0636 (2012: \$0.9949) Cdn. 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 bullion would increase or decrease the net asset value per Unit by approximately U.S. \$1.12 (2012: \$1.72) per Unit or Cdn. \$1.19 (2012: \$1.71) per Unit. The market price for the Units may be above or below the net asset value per Unit at any time due to supply and demand for the Units and market conditions.

*Currency risk*

Currency risk is the risk that the value of an asset or liability will fluctuate due to changes in foreign currency exchange rates.

When expressed in U.S. dollars, the Trust's net asset value per Unit is largely unaffected by changes in the U.S./Cdn. dollar exchange rate due to the fact that nearly all of the Trust's net assets are in the form of silver bullion, which is priced in U.S. dollars. For this same reason, an increase or decrease in the value of the U.S. dollar relative to the Cdn. dollar would change the net asset value per Unit as expressed in Cdn. dollars in the same direction by approximately the same percentage as the change in the value of the U.S. dollar.

Due to the limited value of transactions initiated in Cdn. dollars throughout the year, a strengthening or weakening of the Cdn. dollar relative to the U.S. dollar applied to balances outstanding at December 31, 2013 and 2012 would not have had any material impact on the net income (loss) for the years ended December 31, 2013 and 2012, 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 the Trust. Credit risk is monitored on an ongoing basis and is managed by the Trust dealing only with issuers that are believed to be creditworthy.

*Liquidity risk*

Liquidity risk is the risk that the Trust will not be able to generate adequate cash resources to fulfill its payment obligations. The Administrator regards all of the Trust's assets as liquid. The Trust traditionally has maintained sufficient cash reserves to enable it to pay expenses. Furthermore, over 98% of its net assets are in the form of silver bullion which is readily marketable.

**9. Capital stewardship:**

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 of Units (if any). The Trust does not have any externally imposed capital requirements.

## ***Independent auditors' report***

### **To the Unitholders of Silver Bullion Trust**

We have audited the accompanying financial statements of Silver Bullion Trust (the "Trust") which comprise the Statements of Net Assets as at December 31, 2013 and 2012, and the Statements of Changes in Net Assets, Income (Loss) and Unitholders' Equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditors' responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2013 and 2012, and the results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

"Ernst & Young LLP"

Chartered Accountants  
Licensed Public Accountants  
Toronto, Canada  
February 11, 2014

## ***Responsibility for Financial Reporting and Effectiveness of Internal Control over Financial Reporting***

### **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 (the “Senior Officers”) of the Trust and have been approved by the Board of Trustees (the “Board”) and its Audit Committee.

The financial statements have been prepared by the Senior Officers in accordance with Canadian generally accepted accounting principles. Financial statements may include certain amounts based on estimates and judgments. The Senior 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 backup of records, as well as high quality administrative and regulatory compliance controls, for a reasonable cost. Hard and soft 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 is responsible for ensuring that the Senior Officers fulfil their responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit Committee.

The Audit Committee appointed by the Board consists solely of non-related and independent Trustees. In accordance with its charter, the Committee meets at least annually with the Senior Officers and the external auditors to discuss: the independence of the external auditors; the scope of the annual audit; the audit plan; access granted to the Trust's records; co-operation of the Senior Officers in the audit function; the need for an internal audit function; the financial reporting process; related internal controls; the quality and adequacy of the Trust's or Administrator's accounting and financial personnel; and other resources and financial risk management to satisfy itself that each party is properly discharging its responsibilities. The Committee also reviews the Annual Report, the Annual Information Form, the annual and quarterly financial statements, Management's Discussion and Analysis and the external auditors' report on the annual audit. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the Unitholders. The Committee also reviews the external auditors' remuneration and considers, for review by the Board and approval by the Unitholders, the re-appointment and terms of engagement and, in appropriate circumstances, the replacement of the external auditors. It also pre-approves all audit and non-audit services proposed to be provided by the external auditors. The charter of the Committee is set out on the Trust's website.

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.

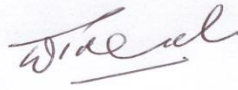
**RESPONSIBILITY FOR INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Senior Officers are responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Ancaster, Canada,  
February 11, 2014



**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 U.S. dollars in accordance with Canadian generally accepted accounting principles, otherwise known as Canadian GAAP, including the Canadian Institute of Chartered Accountants Accounting Guideline 18, Investment Companies ("AcG-18"). Notes to the financial statements on pages 5 through 9 of this Annual Report 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 with voting Units established on June 8, 2009 by a Declaration of Trust, which was amended and restated on July 9, 2009. 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 duties as delegated by an Administrative Services Agreement between the Trust and the Administrator 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.

### ***Financial Results – Changes in Net Assets***

Changes in net assets, as reported in U.S. dollars, from period to period, are primarily a result of Unit offerings and the changing market price of silver. Also, changes in the value of the U.S. dollar relative to the Canadian ("Cdn.") dollar will have an impact on net assets when reported in Cdn. dollars. The tables that follow summarize the net income(loss) including: the changes in unrealized appreciation of holdings (silver bullion) as well as the changes in net assets in U.S. dollars; silver prices; and the exchange rates between U.S. and Cdn. dollars on an annual or quarterly basis, as indicated (all figures in millions unless otherwise noted):

	<i>Years ended December 31,</i>	
	<i>2013</i>	<i>2012</i>
Change in unrealized appreciation of holdings	\$(32.9)	\$5.6
Net income (loss) inclusive of the change in unrealized appreciation of holdings	\$(33.2)	\$5.1
Net income (loss) per Unit inclusive of the change in unrealized appreciation of holdings	\$(6.08)	\$0.94
Total net assets	\$62.3	\$95.6
Change in net assets from prior year	33.2	5.1
% change from prior year	(34.8)%	5.7%
Net asset value per Unit	\$11.40	\$17.48
Change in net asset value per Unit from prior year	\$6.08	\$0.94
% change per Unit from prior year	(34.8)%	5.7%
Silver price (U.S. \$ per ounce)	\$19.50	\$29.95
% change from prior year	(34.9)%	6.3%
Exchange rate: \$1.00 U.S. = Cdn.	\$1.0636	\$0.9949
% change from prior year	6.9%	(2.2)%

In fiscal 2013, total net assets as reported in U.S. dollars decreased by \$33.2 million or 34.8% during the year to a total of \$62.3 million. The decrease in net assets was primarily attributable to the 34.9% decrease in the market price of silver during the year which decreased unrealized appreciation of holdings by \$32.9 million. This decrease was further affected by expenses of \$0.4 million incurred during the year.

As a result of the above, for fiscal 2013 the net asset value per Unit, as reported in U.S. dollars, decreased by 34.8%, from \$17.48 to \$11.40. The net asset value per Unit, as reported in Cdn. dollars, while subject to the same factors described above, decreased by a lesser rate of 30.2%, from \$17.39 to \$12.13 primarily due to a 6.9% increase in the value of the U.S. dollar relative to the Cdn. dollar.

2013	Quarter ended			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Change in unrealized appreciation of holdings	\$(6.9)	\$8.9	\$(30.7)	\$(4.1)
Net income (loss) inclusive of the change in unrealized appreciation of holdings	\$(6.9)	\$8.8	\$(30.8)	\$(4.2)
Net income (loss) per Unit inclusive of the change in unrealized appreciation of holdings	\$(1.27)	\$1.61	\$(5.65)	\$(0.77)
Total net assets	\$62.3	\$69.3	\$60.5	\$91.3
Change in net assets from prior quarter	\$(6.9)	\$8.8	\$(30.8)	\$(4.2)
% change from prior quarter	(10.0)%	14.5%	(33.8)%	(4.4)%
Net asset value per Unit	\$11.40	\$12.67	\$11.06	\$16.71
Change in net asset value per Unit from prior quarter	\$(1.27)	\$1.61	\$(5.65)	\$(0.77)
% change from prior quarter	(10.0)%	14.6%	(33.8)%	(4.4)%
Silver price (U.S. \$ per ounce)	\$19.50	\$21.68	\$18.86	\$28.64
% change from prior quarter	(10.1)%	15.0%	(34.1)%	(4.4)%
Exchange rate: \$1.00 U.S. = Cdn	\$1.0636	\$1.0285	\$1.0512	\$1.0156
% change from prior quarter	3.4%	(2.2)%	3.5%	2.1%

In fiscal 2012, total net assets as reported in U.S. dollars increased by \$5.1 million or 5.7% during the year to a total of \$95.6 million. The increase in net assets was primarily attributable to the 6.3% increase in the market price of silver during the year which increased unrealized appreciation of holdings by \$5.6 million. The increase was also affected by expenses of \$0.5 million incurred during the year.

As a result of the above, for fiscal 2012 the net asset value per Unit, as reported in U.S. dollars, increased by 5.7%, from \$16.54 to \$17.48. The net asset value per Unit, as reported in Cdn. dollars, while subject to the same factors described above, increased by a lesser rate of 3.4%, from \$16.82 to \$17.39 primarily due to a 2.2% decrease in the value of the U.S. dollar relative to the Cdn. dollar.



2012	Quarter ended			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Change in unrealized appreciation of holdings	\$(14.8)	\$23.8	\$(16.8)	\$13.4
Net income (loss) inclusive of the change in unrealized appreciation of holdings	\$(14.9)	\$23.7	\$(16.9)	\$13.2
Net income (loss) per Unit inclusive of the change in unrealized appreciation of holdings	\$(2.72)	\$4.33	\$(3.09)	\$2.42
Total net assets	\$95.6	\$110.5	\$86.8	\$103.7
Change in net assets from prior quarter	\$(14.9)	\$23.7	\$(16.9)	\$13.2
% change from prior quarter	(13.5)%	27.3%	(16.3)%	14.6%
Net asset value per Unit	\$17.48	\$20.20	\$15.87	\$18.97
Change in net asset value per Unit from prior quarter	\$(2.72)	\$4.33	\$(3.10)	\$2.43
% change from prior quarter	(13.5)%	27.3%	(16.3)%	14.7%
Silver price (U.S. \$ per ounce)	\$29.95	\$34.65	\$27.08	\$32.43
% change from prior quarter	(13.6)%	28.0%	(16.5)%	15.1%
Exchange rate: \$1.00 U.S. = Cdn	\$0.9949	\$0.9837	\$1.0191	\$0.9991
% change from prior quarter	1.1%	(3.5)%	2.0%	(1.8)%

### *Financial Results – Net Income*

The Trust's earned income objective is secondary to its purpose of holding almost all of its net assets in silver bullion. The Trust maintains 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.

AcG-18 requires the Trust to record the change in unrealized appreciation or depreciation of holdings in income. The Trust expects to generate cash flow from its holdings of cash equivalents, and will only sell portions of its silver holdings if necessary to replenish cash reserves for purposes of paying expenses and to meet redemptions (if any).

The Trust does not anticipate the payment of regular distributions. In the event of any sales of silver that result in capital gains, as indicated in Note 2(d) to the financial statements on page 5, distributions may be made.

### *Fiscal 2013 Compared to Fiscal 2012*

Net loss, inclusive of the change in unrealized appreciation of holdings, was \$33.2 million for the 2013 fiscal year compared to net income of \$5.1 million for the 2012 fiscal year. Virtually all of this decrease was a result of the change in unrealized appreciation of holdings which resulted from a lower silver price during the year as compared to the prior year.

The decrease in net assets during the year had an impact on several expense categories that are a function of net asset levels. Administration fees, which are calculated monthly

based on the total net assets at each month-end, decreased during the year as a direct result of the lower level of net assets. Similarly, safekeeping fees, stock exchange fees and some other expenses decreased, reflecting the decreased net assets under administration during the year.

Expenses as a percentage of the average of the month-end net assets were 0.50% for the 2013 fiscal year as compared to 0.45% for fiscal 2012.

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

The Trust is almost entirely invested in pure refined silver bullion in LBMA international good delivery bar form. Therefore, the principal factors affecting the price of its Units are factors which affect the currency price of silver, which are beyond the Trust's control. However, the Trust believes that such factors have a lesser impact on the Units of the Trust than on the shares of silver producers, as silver producers have considerable inherent operational costs and other risks which may result in more volatile share prices of such producers. The Trust's net assets are denominated in U.S. dollars. As at December 31, 2013, the Trust's assets were made up of 98.3% silver bullion and 1.7% in interest-bearing cash 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 market price fluctuations of its silver bullion holdings.

Silver bullion is traded internationally and its market prices may be affected by a variety of unpredictable, international, economic, monetary and political considerations. The Trust's financial statements are prepared on a market price basis. 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*

Price risk is the risk that the price of a security or physical asset may decline. 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. dollars and Cdn. dollars. Assuming as a constant exchange rate, the rate which existed on December 31, 2013 of \$1.0636 (2012: \$0.9949) Cdn 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. \$1.12 (2012: \$1.71) per Unit or Cdn. \$1.19 (2012: \$1.72) per Unit.

### *Currency risk*

Currency risk is the risk that the value of an asset or liability will fluctuate due to changes in foreign currency exchange rates.

When expressed in U.S. dollars, the Trust's net asset value per Unit is largely unaffected by changes in the U.S./Cdn dollar exchange rate due to the fact that nearly all of the Trust's net assets are in the form of silver bullion, which is priced in U.S. dollars. For this same reason, an increase or decrease in the value of the U.S. dollar relative to the

Cdn. dollar would change the net asset value per Unit as expressed in Cdn. dollars in the same direction by approximately the same percentage as the change in the value of the U.S. dollar.

Due to the limited value of transactions initiated in Cdn. dollars throughout the year, a strengthening or weakening of the Cdn. dollar relative to the U.S. dollar applied to balances outstanding at December 31, 2013 and 2012 would not have had any material impact on the net income (loss) for the years ended December 31, 2013 and 2012, 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 the Trust. Credit risk is monitored on an ongoing basis and is managed by the Trust dealing only with issuers that are believed to be creditworthy.

#### *Liquidity risk*

Liquidity risk is the risk that the Trust will not be able to generate adequate cash resources to fulfill its payment obligations. The Administrator regards all of the Trust's assets as liquid. The Trust traditionally has maintained sufficient cash reserves to enable it to pay expenses. Furthermore, over 98% of its net assets are in the form of silver bullion which is readily marketable.

#### *Liquidity and Capital Resources*

The Trust's liquidity objective is to hold cash and short-term deposits in a safe and conservative manner to generate income primarily to be applied towards expenses. At December 31, 2013, the Trust's cash reserves, including cash equivalents, were \$1.1 million compared to \$1.5 million at December 31, 2012. The ability of the Trust to have sufficient cash to pay its expenses and to meet demands for redemption (if any), is primarily dependent upon its ability to realize cash flow from its cash equivalents. Should the Trust not have sufficient cash to meet its needs, 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 fiscal year ended December 31, 2013, the Trust's cash reserves decreased by \$0.4 million. The primary sources and uses of cash were as follows:

##### *Sources of Cash*

The only source of cash was interest on cash deposits which were nominal.

##### *Uses of Cash*

During fiscal 2013, cash outflows to pay expenses were \$0.4 million.

#### *Administrator and Other Related Party Information*

Please refer to Note 6 on page 7 of this Annual Report.

### ***Future Accounting Policy***

On December 12, 2011, the Accounting Standards Board of Canada decided to further extend the deferral of International Financial Reporting Standards (“IFRS”) adoption for investment companies for an additional year. Investment companies will be required to mandatorily adopt IFRS for interim and annual financial statements for fiscal periods beginning on or after January 1, 2014.

The Trust has reviewed 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 implemented by the Trust included a position paper which highlighted the material standards that need to be addressed under IFRS and preparation of an opening statement of net assets and financial statements that incorporate IFRS accounting standards and policies. The primary areas of change as identified during this assessment include some modification in the presentation of certain statements, including a new statement of cash flows, and increased note disclosure. The assessment has addressed the impact on the Trust’s accounting system and internal controls required to report under IFRS beginning on the implementation date. The Trust is ready to implement these modifications in preparation of its initial filing under IFRS expected for the fiscal year beginning January 1, 2014.

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

The Senior Executive Officers have established and implemented disclosure controls and procedures in order to 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 fiscal year ended December 31, 2013.

### ***Non-Market Risk Factors***

There are other risk factors affecting the Trust as set out in the Annual Information Form dated February 12, 2014. Prospective investors should carefully consider these factors relating to the business and primary assets of the Trust before deciding whether to purchase Units.

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

The 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 (“U.S. Holders”). Under current law, a non-corporate U.S. Holder who has in effect a valid election to treat the Trust as a qualified electing fund (“QEF”) should be eligible for the 20% maximum United States federal income tax rate on a sale or other taxable disposition of the Trust’s 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 the Trust 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 Trust Units. U.S. Holders should consult their tax advisors regarding the implications of making a QEF election with respect to the Trust.

Under the QEF rules, in the event that the Trust 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 the Trust). The Trust has not paid any cash distributions on its outstanding Units since inception. It is the intention of the Trust 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 the Trust will be at least equal to the product of (i) the Trust'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 such cash distributions may be subject to Canadian withholding tax and because the amount of such cash 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 U.S. Holders, 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 the Trust's "ordinary earnings" and "net capital gains" under the QEF rules.

Each United States person that acquires Units, whether from the Trust or in the secondary market, is strongly urged to consult his, her or its own tax advisor.

**NOTICE PURSUANT TO TREASURY DEPARTMENT 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.**

### ***Additional Information***

The Trust maintains its accounting records, purchases silver and reports its financial position and results in U.S. currency. However, certain of the Trust's expenses are paid, and the Trust's Units trade, in both Cdn. and U.S. currencies. 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 Cdn. dollars.

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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' interests. Additional 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.

This MD&A is dated February 11, 2014. Additional information relating to the Trust, including Annual Information Forms, Notices of Annual Meetings and Information Circulars, 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. McAvity (C) (I) (L)  
Michael A. Parente (A) (C) (I)  
Jason A. Schwandt (A) (I)  
J.C. Stefan Spicer (N)

### ***Officers***

J.C. Stefan Spicer, Chairman, 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***

CST Trust Company, Canada

### ***Legal Counsel***

Dentons Canada LLP  
Toronto, Ontario, Canada

### ***Stock Exchange Listings***

TSX Symbols:     SBT.UN (Cdn \$)  
                      SBT.U (U.S.\$)

Dorsey & Whitney LLP  
Seattle, Washington, U.S.A.

U.S. OTC:         SVRZF (U.S. \$)

### ***Net 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”™**

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