

SILVER BULLION TRUST



Management's Discussion & Analysis

December 31, 2009

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 1st Interim Report, Annual Information Form, Notice of Annual Meeting and Information Circular, Press Releases, financial and other information are available at www.sedar.com and www.silverbulliontrust.com.