

# **SILVER BULLION TRUST**



## **Management's Discussion & Analysis**

**September 30, 2010**

## ***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 Canadian generally accepted accounting principles, otherwise known as Canadian GAAP, and the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 18, Investment Companies ("AcG-18"). Notes to the financial statements on pages 5 through 9 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 ("inception") by a declaration of trust. 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 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 nine months ended September 30, 2010.

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

Net assets increased by \$38.9 million or 118.8% during the nine months ended September 30, 2010 to a total of \$71.7 million. Of this amount, \$25.1 million resulted from the exercise of 2,507,516 Warrants during the period for net proceeds of \$25,075,161 of which \$24,195,650 was used to purchase 1,310,500 ounces of silver bullion in physical bar form. The balance of the increase in net assets of \$13.8 million was attributable to the increase in the market price of silver 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 income is a nominal percentage of its net assets. However, the CICA AcG-18 requires the Trust to record changes in unrealized appreciation (depreciation) of holdings in income.

Net income (inclusive of the change in unrealized appreciation of holdings) for the three months ended September 30, 2010 amounted to \$10,395,333 (\$1.90 per Unit) after deducting expenses of \$74,863 compared to \$4,104,562 (\$1.53 per Unit) after deducting expenses of \$21,961 for the period from inception to September 30, 2009. Net income (inclusive of the change in unrealized appreciation of holdings) for the nine months ended September 30, 2010 amounted to \$13,838,113 (\$3.08 per Unit) after deducting expenses of \$200,262.

Virtually all of the reported income for the period represents the change in unrealized appreciation of silver bullion holdings, which is not distributable income. However, it is reported in the Statement of Income in accordance with the CICA AcG-18.

The total expenses of maintaining the Trust expressed as a percentage of the average of the month-end net assets (the "expense ratio") were 0.12% for the three months ended September 30, 2010 compared to 0.08% for the period from inception to September 30, 2009. For the nine months ended September 30, 2010 the expense ratio was 0.38%. For the twelve months ended September 30, 2010 the expense ratio was 0.51%.

The following table summarizes the quarterly financial information (amounts in millions except where stated on a per Unit basis):

	<i>Quarter ended (U.S. dollars)</i>			
	<i>Sept. 30/10</i>	<i>June 30/10</i>	<i>Mar. 31/10</i>	<i>Dec. 31/09</i>
Income inclusive of the change in unrealized appreciation of holdings	\$ 10.5	2.5	1.0	0.9
Net income inclusive of the change in unrealized appreciation of holdings	\$ 10.4	2.5	1.0	0.8
Net income per Unit inclusive of the change in unrealized appreciation of holdings	\$ 1.90	0.49	0.31	0.29
Total Net Assets	\$ 71.7	61.3	37.4	32.8

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

All of Silver Bullion Trust's assets are liquid. The Trust holds small cash reserves that generate interest income primarily to be applied towards payment of expenses. For the nine months ended September 30, 2010, the Trust's cash reserves, including cash equivalents increased by \$681,988 to \$2,493,513. 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 short-term deposits. 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.

### ***Related party information***

Please refer to Note 6 commencing on page 6 of this Interim Report.

### ***International Financial Reporting Standards ("IFRS")***

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles ("GAAP"), as used by publicly accountable enterprises, will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. However, in June 2010, an Exposure Draft issued by the AcSB entitled "Adoption of IFRSs by Investment Companies" proposes to allow entities that currently apply AcG-18, the option to defer implementation of IFRS until its fiscal year beginning on or after January 1, 2012. The Exposure Draft was approved in October 2010 and it is the intention of the Trust to defer implementation.

The Trust is reviewing the key elements within IFRS that may result in a change in accounting policies that will impact its financial statements and accompanying note disclosures. A preliminary analysis of these issues follows:

#### *Income taxes*

Under current Canadian GAAP, the Trust is not required to provide for income taxes on unrealized gains or losses on its holdings due to the flow-through nature of trusts. Similarly, under International Accounting Standard ("IAS") 12, Income Taxes, the current expectation is that the Trust will not be required to record future taxes on unrealized gains or losses on its' holdings.

#### *Classification of Redeemable Trust Units*

IAS 32, Financial Instruments: Presentation identifies five features, all of which must exist for a puttable instrument (a Unit) to be classified as equity; otherwise, it is classified as a financial liability. The analysis completed to date suggests that all five features exist within the structure of the Trust Units.

#### *Accounting for changes in unrealized appreciation/depreciation of holdings*

Currently, the Trust is required to follow AcG-18, which provides that all changes in the value of holdings from one period to another are reported through income. There is little guidance on how to properly classify silver and changes in its value from period to period under IFRS. Accordingly, it is unclear as to whether changes in the value of silver holdings should be reported through income, through other comprehensive income or directly through equity. The Trust continues to investigate and analyze this issue and expects to have clearer guidance on how to account for changes in the value of silver holdings.

### ***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 both Canadian 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 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 the 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.

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 October 28, 2010, the Annual Information Form, the 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).