

# **SILVER BULLION TRUST**



**Management's Discussion & Analysis**

**September 30, 2015**

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

The interim financial statements of Silver Bullion Trust (the "Trust") are prepared and reported in United States ("U.S.") dollars in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" and may not include all of the information required for full annual financial statements. The notes to the financial statements on pages 11 to 20 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. Its 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 the Administrative Services Agreement and as guided by the Trustees.

There are no off-balance sheet items, arrangements, material contingencies or obligations other than those disclosed in the financial statements or the notes thereto. 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, 2015.

### ***Outstanding Units***

There were 5,467,228 Units issued and outstanding at September 30, 2015 and December 31, 2014.

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

The net assets of the Trust are comprised of the fair value of the Trust's total assets less the fair value of the Trust's total liabilities. The term "net assets", as used in this MD&A, has the same meaning as the term "total equity" as used in the Trust's September 30, 2015 interim financial statements and notes thereto.

Net assets decreased by \$3.9 million or 8.0% during the three months ended September 30, 2015. This decrease was primarily attributable to the 6.7% decrease in the price of silver during the period. The impact of the unanticipated costs of the unsolicited take-over bid initiated on May 27, 2015 by Sprott Asset Management LP was also a factor in the decrease in net assets during the period.

Net assets decreased by \$5.6 million or 10.9% during the nine months ended September 30, 2015. This decrease was primarily attributable to the 8.3% decrease in the price of silver during the period. The impact of the costs of the unsolicited take-over bid and the unanticipated Special Meeting of Unitholders held on May 20, 2015 were also factors in the decrease in net assets during the period.

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

	<i>Quarter ended</i>			
	<i>Sept. 30, 2015</i>	<i>Jun. 30, 2015</i>	<i>Mar. 31, 2015</i>	<i>Dec. 31, 2014</i>
Change in unrealized appreciation/depreciation of holdings	\$(3.2)	\$(2.8)	\$2.0	\$(3.6)
Net income (loss) inclusive of the change in unrealized appreciation/depreciation of holdings	\$(3.9)	\$(3.5)	\$1.9	\$(3.6)
Net income (loss) per Unit inclusive of the change in unrealized appreciation/depreciation of holdings	\$(0.72)	\$(0.64)	\$0.34	\$(0.67)
Total net assets	\$45.4	\$49.3	\$52.8	\$50.9
	<i>Sept. 30, 2014</i>	<i>Jun. 30, 2014</i>	<i>Mar. 31, 2014</i>	<i>Dec. 31, 2013</i>
Change in unrealized appreciation/depreciation of holdings	\$(11.8)	\$2.8	\$1.5	\$(6.9)
Net income (loss) inclusive of the change in unrealized appreciation/depreciation of holdings	\$(11.9)	\$2.8	\$1.4	\$(6.9)
Net income (loss) per Unit inclusive of the change in unrealized appreciation/depreciation of holdings	\$(2.18)	\$0.50	\$0.26	\$(1.27)
Total net assets	\$54.6	\$66.5	\$63.7	\$62.3

### ***Financial Results – Net Income***

Silver Bullion Trust's earned income objective is secondary to its purpose of holding almost all of its net assets in silver bullion. The Trust ordinarily maintains adequate cash reserves to enable it to pay the expenses of maintaining the Trust. However, due to the non-recurring expenses relating to the Special Meeting and the unsolicited takeover bid and the impact this has had on the Trust's cash resources, the Board authorized the sale of a small portion of its silver bullion holdings.

The Trust's realized revenues are a nominal percentage of its net assets.

Net loss, inclusive of the change in unrealized appreciation/depreciation of holdings, for the three months ended September 30, 2015 was \$3.9 million compared to \$11.9 million for the comparable period in 2014. Net loss, inclusive of unrealized appreciation/depreciation of holdings, for the nine months ended September 30, 2015 was \$5.6 million compared to \$7.7 million for the comparable period in 2014. Much of the reported net loss for both the three and nine-month periods was a result of the change in unrealized appreciation/depreciation of holdings. Certain expenses, such as administration fees and safekeeping fees, vary in proportion to net asset levels. Administration fees, which are scaled and calculated monthly based on the net assets at each month end, decreased during the three and nine-month periods ended September 30, 2015 as compared to the same periods in 2014. The decrease in administration fees was a direct result of the lower level of average net assets under administration during the period. Expenses for the three and nine-month periods ended September 30, 2015 were significantly higher, due to costs incurred as a result of: (i) the Annual and Special Meeting held on May 20, 2015 (see "Unitholder Proposal" on page 6); and, (ii) an unsolicited takeover bid initiated on May 27, 2015 by Sprott Asset Management LP (see "Unsolicited Takeover Bid" on page 6).

Expenses as a percentage of the average of the month-end net assets (the "expense ratio") for the three-month period ended September 30, 2015 was 1.46% compared to 0.13% for the three-month period in 2014. For the nine-month period ended September 30, 2015, the expense ratio was 2.85% compared to 0.37% for the nine-month period ended September 30, 2014. For the twelve-month period ended September 30, 2015, the expense ratio was 2.95% compared to 0.49% for the twelve-month period ended September 30, 2014. The expense ratios of Silver Bullion Trust have increased significantly as a direct result of the unanticipated one-time costs incurred for the Annual and Special Meeting held on May 20, 2015 and of costs associated with the subsequent unsolicited takeover bid by Sprott Asset Management LP.

If not for the significant expenses of the Special Meeting and subsequent unsolicited takeover bid, the expense ratios for each of the three, nine and twelve-month periods would have increased only slightly compared to the expense

ratios in 2014. Specifically, for the three-month period ended September 30, 2015, the expense ratio would have been 0.14% compared to 0.13% for the comparative three-month period in 2014. For the nine-month period ended September 30, 2015 the expense ratio would have been 0.39% compared to 0.37% for the same period in 2014. For the twelve-month period ended September 30, 2015, the expense ratio would have been 0.51% compared to 0.49% for the comparative period in 2014.

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

The Trust's liquidity objective is to hold cash and cash equivalents in a safe and conservative manner to generate income primarily to be applied towards expenses. 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.

For the nine months ended September 30, 2015, the Trust's cash decreased by \$20,850 to \$778,821. This decrease was the result of two factors. The first was the amounts used to pay the expenses of the Trust, which included significant unanticipated Special Meeting costs as described in Note 14 and the unsolicited takeover bid costs as described in Note 15 of the quarterly financial statements. The second was additional cash raised by the sale of silver bullion. The Administrator and Senior Executive Officers monitor the Trust's cash position with an emphasis on maintaining its mandate to hold maximum amounts of silver bullion.

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

Please refer to Note 9 of the quarterly financial statements.

### ***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 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' equity interests. Additional Unit issues to enlarge 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.

### ***Enhanced Cash Redemption Feature***

On June 24, 2015 the Trustees approved an amendment to the Redemption Feature of the Units such that all Unitholders will have the option to redeem Units for cash at any time in an amount equal to 95% of net asset value ("NAV") based on the average published NAV of Silver Bullion Trust for the five trading days following the date upon which the Units are tendered for redemption. This enhanced feature is designed to address trading discounts to NAV in bear markets while preserving the advantages of Silver Bullion Trust's existing structure. This amendment was rendered ineffective in the July Court proceedings to the Sprott offer.

While respecting the Court's decision, the Trustees still intend to implement the Enhanced Cash Redemption Feature if the Sprott Offer fails or is withdrawn or with the support of Unitholders at a meeting of Unitholders. However, certain future events, including a change in the composition of the majority of the Board of Trustees, the failure to obtain the support of Unitholders, a change in the economic circumstances of Silver Bullion Trust or a change in the silver bullion market, could result in the Enhanced Cash Redemption Feature not being adopted.

### ***Unitholder Proposal***

On February 3, 2015, the Board of Trustees of Silver Bullion Trust received a Unitholder requisition for the holding of a special meeting of the Trust's Unitholders. The requisition required that two matters be submitted to

Unitholders for consideration: significant alteration of Silver Bullion Trust's existing cash redemption provisions as set out in the Trust's Amended and Restated Declaration of Trust and the inclusion of a new physical bullion redemption feature; and, the replacement of Silver Bullion Trust's current Trustees with nominees proposed by the dissident Unitholder.

In response, Silver Bullion Trust organized its Annual Meeting held on May 20, 2015 as an Annual and Special Meeting and filed its Management Information Circular and proxy materials in this regard. These filings can be found at [www.sedar.com](http://www.sedar.com) and [www.silverbulliontrust.com](http://www.silverbulliontrust.com). The dissident Unitholder's proposal was soundly defeated.

### ***Unsolicited Takeover Bid***

On April 23, 2015, Sprott Asset Management LP together with Sprott Physical Silver Trust ("Sprott"), announced its intention to commence an unsolicited takeover bid (the "Sprott offer") to acquire all of the outstanding Units of Silver Bullion Trust on a net asset value ("NAV") to NAV exchange basis. This Sprott offer was formally launched on May 27, 2015. To date Sprott's offer has not been met with the necessary level of Unitholder support and they have now extended the offer five times with the most current variation set to expire on October 30, 2015.

Silver Bullion Trust's Trustees appointed a Special Committee composed of independent Trustees to review, analyze and provide recommendations on the Sprott offer with a view to the best interests of the Trust and its Unitholders. The Special Committee believes that the Sprott offer does not provide compelling value to Silver Bullion Trust Unitholders. Your Trustees recommend that Silver Bullion Trust Unitholders reject the Sprott offer.

On October 2, 2015, Silver Bullion Trust issued a press release whereby it provided an update on developments that had occurred since the Trustees issued their Trustees Circular dated June 9, 2015. Though we recommend that you visit our website at [www.silverbulliontrust.com](http://www.silverbulliontrust.com) and review this and other releases related to the Sprott unsolicited takeover bid, some highlights from this press release including some pertinent additional updates have been summarized below:

On June 24, 2015, Silver Bullion Trust commenced a legal proceeding against Sprott seeking a declaration from the Court that certain aspects of Sprott's hostile takeover bid were illegal and that the amendments to the Declaration of Trust of Silver Bullion Trust concerning the Enhanced Cash Redemption Feature and the preservation of the 90% compulsory acquisition threshold, were validly made and binding on Sprott. In its decision on July 31, 2015, the Court agreed to the extent that the Sprott offer deprives Unitholders of their statutory takeover bid withdrawal rights. The Court also found that the Power of Attorney that tendering Unitholders are required to grant to Sprott pursuant to the Letter of Transmittal under the Sprott offer was so broad that it went beyond approving the Merger Transaction and the redemption of Units and, in doing so contravened the Securities Act (Ontario). The Court ordered that Sprott must remedy these defects before their offer could proceed. The offer was adjusted by Sprott to purport to remedy these technical defects and has proceeded.

The Court also held, in response to a complaint by Sprott, that the proposed Enhanced Cash Redemption Feature and the preservation of the 90% compulsory acquisition threshold were invalid on the basis that they were defensive tactics. The Trustees strongly believe that Unitholders should not be deprived of the benefits of the Enhanced Cash Redemption Feature, and intend to implement this feature if the Sprott offer fails or is withdrawn or with the support of Unitholders.

On August 7, 2015 Silver Bullion Trust announced that Jason Schwandt had been appointed as Lead Trustee and Chair of the Corporate Governance and Nominating Committee of the Board of Trustees of Silver Bullion Trust in the place of Mr. Ian McAvity..

On August 28, 2015 Sprott announced that a soliciting dealer group had been formed in connection with the Sprott offer. At the time of this announcement Sprott had already extended the expiry date for its offer three times as it had failed by a substantial margin to meet the minimum tender condition to the offer. The Trustees believe that this action by Sprott was a desperate attempt to buy support for its inadequate hostile offer.

The most recent extension of the Sprott offer occurred on October 6, 2015. Within this extension of its offer, Sprott has incorporated what it refers to as a premium consideration of U.S. \$0.025 per Unit, representing less than 0.3% of the current value of a Silver Bullion Trust Unit. Your Trustees believe this so-called premium is immaterial, may raise tax issues and would be more than offset by the higher annual management fees charged by Sprott.

To date, Sprott's offer has failed to achieve the level of Unitholder support required and Sprott has now extended its offer for the fifth time with the most current variation set to expire on October 30, 2015.

This MD&A is dated October 29, 2015. Additional information relating to the Trust, including Annual Information Forms, Notices of Annual or Annual and Special 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).