



# Annual Report

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FOR THE YEAR ENDED DECEMBER 31, 2013

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## BMG BullionFund



BULLION  
MANAGEMENT  
SERVICES INC.  
A BMG Company

# **BMG BullionFund**

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## **Annual Financial Statements**

For the years ended December 31, 2013 and 2012



BULLION  
MANAGEMENT  
SERVICES INC.

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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The accompanying financial statements of BMG BullionFund have been prepared by Bullion Management Services Inc., in its capacity as manager (the “Manager”) of the BMG Fund, and have been approved by the Board of Directors of Bullion Management Services Inc. The Board of Directors is responsible for the information and representations contained in these financial statements and in the Management Report of Fund Performance.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles, and include certain amounts that are based on estimates and judgements made by the Manager. The significant accounting policies that the Manager believes are appropriate for the BMG Fund are described in note 2 to the financial statements.

The Audit Committee of the Board of Directors is responsible for reviewing the financial statements and the Management Report of Fund Performance, and for recommending them to the Board of Directors of Bullion Management Services Inc. and the Trustee for approval, in addition to meeting with management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues.

BDO Canada LLP is the external auditor of the BMG Fund, and is appointed by the Trustee of BMG BullionFund. The auditor of the BMG Fund has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable it to express to the unitholders its opinion on the financial statements. The auditor’s report is set out herein.



Nick Barisheff  
President & CEO  
Director



Paul de Sousa  
Executive Vice President  
Director



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## Independent Auditor's Report

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To the Unitholders of BMG BullionFund:

We have audited the accompanying financial statements of BMG BullionFund, which comprise the statement of net assets and investment portfolio as at December 31, 2013, and the statements of operations and changes in net assets for the year 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.

### Auditor's Responsibility

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 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 auditor's 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 auditor considers internal control 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 control. 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 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, net assets and investment portfolio of BMG BullionFund as at December 31, 2013 and the results of its operations and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

### Other Matters

The financial statements for the year ended December 31, 2012 were audited by another auditor who expressed an unqualified opinion on those statements on March 8, 2013.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

March 6, 2014

## STATEMENTS OF NET ASSETS

As at December 31

	2013 \$	2012 \$
<b>ASSETS</b>		
Gold, silver and platinum bullion - at fair value [Average cost \$211,071,022; 2012 - \$241,667,710]	251,471,762	372,587,139
Cash	925,522	1,794,626
Accounts receivable	713,999	-
Subscriptions receivable	41,852	328,341
Due from manager	1,388	2,923
<b>Total assets</b>	<b>253,154,523</b>	<b>374,713,029</b>
<b>LIABILITIES</b>		
Management fees payable	492,175	742,327
Redemptions payable	866,838	260,141
Accounts payable and accrued liabilities	88,861	216,962
<b>Total liabilities</b>	<b>1,447,874</b>	<b>1,219,430</b>
<b>Net assets</b>	<b>251,706,649</b>	<b>373,493,599</b>
<b>Total net assets per class</b>		
Class A	198,337,219	293,475,655
Class B3	476,242	-
Class E09	128,250	203,628
Class E10	285,003	374,541
Class E11	5,300,406	8,746,131
Class E12	2,224,486	3,539,868
Class E15	2,156,429	3,125,115
Class F	22,642,995	35,918,888
Class G01	8,808,514	12,381,564
Class G05	757,486	1,000,499
Class G09	7,131,010	8,368,867
Class G10	1,005,547	2,207,720
Class G11	2,042,342	3,618,197
Class G15	410,720	532,926
	<b>251,706,649</b>	<b>373,493,599</b>
<b>Net assets per unit</b>		
Class A	9.16	12.19
Class B3	9.52	-
Class E09	10.13	13.34
Class E10	10.20	13.41
Class E11	10.35	13.59
Class E12	7.69	10.09
Class E15	10.69	13.96
Class F	10.13	13.34
Class G01	9.27	12.33
Class G05	10.24	13.54
Class G09	10.06	13.22
Class G10	10.07	13.23
Class G11	10.21	13.40
Class G15	10.89	14.13

See accompanying notes

## STATEMENTS OF OPERATIONS

For the years ended December 31

	2013 \$	2012 \$
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>		
Net change in unrealized appreciation (depreciation) of investments	(90,518,689)	8,003,442
Net realized gains on investments	9,589,310	7,360,337
Net realized and/or unrealized foreign exchange gains	15,233	2,915
Net gains (losses) on investments	(80,914,146)	15,366,694
<b>INVESTMENT INCOME</b>		
Early redemption fees	34,473	17,336
Other	17,219	7,000
<b>Total investment income</b>	51,692	24,336
<b>EXPENSES</b>		
Management fees [note 5]	6,407,149	7,934,605
Security holder reporting costs	776,190	849,376
Bullion storage fees	655,100	819,000
Services tax	821,545	1,020,812
Other administrative expenses	71,560	105,511
Legal fees	5,607	28,950
Audit fees	40,160	57,760
Filing fees	23,825	23,400
Independent Review Committee fees	15,548	14,332
Interest and bank charges	16	310
<b>Total expenses</b>	8,816,699	10,854,056
<b>Expenses absorbed by Manager</b>	(2,782)	(2,923)
<b>Net investment loss</b>	<b>(8,762,225)</b>	<b>(10,826,797)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>(89,676,371)</b>	<b>4,539,897</b>
<b>Increase (decrease) in net assets from operations per class</b>		
Class A	(70,896,689)	(2,461,853)
Class B3	(23,758)	-
Class E09	(37,814)	4,770
Class E10	(89,538)	9,297
Class E11	(1,914,802)	230,189
Class E12	(794,859)	118,721
Class E15	(696,498)	132,900
Class F	(8,113,716)	1,080,344
Class G01	(3,239,582)	(108,032)
Class G05	(251,885)	74,006
Class G09	(2,375,679)	299,228
Class G10	(481,752)	84,462
Class G11	(637,593)	132,187
Class G15	(122,206)	19,972
	(89,676,371)	4,539,897
<b>Increase (decrease) in net assets from operations per unit</b>		
Class A	(3.07)	0.10
Class B3	(0.48)	-
Class E09	(3.00)	0.31
Class E10	(3.21)	0.33
Class E11	(3.48)	0.36
Class E12	(2.41)	0.34
Class E15	(3.21)	0.52
Class F	(3.35)	0.39
Class G01	(2.98)	(0.08)
Class G05	(3.32)	0.70
Class G09	(3.25)	0.44
Class G10	(3.22)	0.50
Class G11	(3.03)	0.47
Class G15	(3.24)	0.53

See accompanying notes

## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31

	Class A		Class B3	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	293,475,655	276,876,888	-	-
Increase (decrease) in net assets from operations	(70,896,689)	2,461,853	(23,758)	-
Capital transactions				
Subscriptions	30,377,981	42,699,184	500,000	-
Redemptions	(54,619,728)	(28,562,270)	-	-
Total capital transactions	(24,241,747)	14,136,914	500,000	-
Net assets - end of period	<b>198,337,219</b>	293,475,655	<b>476,242</b>	-

  

	Class E09		Class E10	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	203,628	198,858	374,541	365,244
Increase (decrease) in net assets from operations	(37,814)	4,770	(89,538)	9,297
Capital transactions				
Subscriptions	5,000	-	-	-
Redemptions	(42,564)	-	-	-
Total capital transactions	(37,564)	-	-	-
Net assets - end of period	<b>128,250</b>	203,628	<b>285,003</b>	374,541

  

	Class E11		Class E12	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	8,746,131	8,515,942	3,539,868	3,430,060
Increase (decrease) in net assets from operations	(1,914,802)	230,189	(794,859)	118,721
Capital transactions				
Subscriptions	55,525	-	54,818	411,769
Redemptions	(1,586,448)	-	(575,341)	(420,682)
Total capital transactions	(1,530,923)	-	(520,523)	(8,913)
Net assets - end of period	<b>5,300,406</b>	8,746,131	<b>2,224,486</b>	3,539,868

  

	Class E15		Class F	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	3,125,115	3,645,130	35,918,888	38,240,990
Increase (decrease) in net assets from operations	(696,498)	132,900	(8,113,716)	1,080,344
Capital transactions				
Subscriptions	-	24,212	8,362,752	7,401,347
Redemptions	(272,188)	(677,127)	(13,524,929)	(10,803,793)
Total capital transactions	(272,188)	(652,915)	(5,162,177)	(3,402,446)
Net assets - end of period	<b>2,156,429</b>	3,125,115	<b>22,642,995</b>	35,918,888

  

	Class G01		Class G05	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	12,381,564	19,266,153	1,000,499	2,298,851
Increase (decrease) in net assets from operations	(3,239,582)	(108,032)	(251,885)	74,006
Capital transactions				
Subscriptions	2,903,406	1,297,388	78,378	103,474
Redemptions	(3,236,874)	(8,073,945)	(69,506)	(1,475,832)
Total capital transactions	(333,468)	(6,776,557)	8,872	(1,372,358)
Net assets - end of period	<b>8,808,514</b>	12,381,564	<b>757,486</b>	1,000,499

## STATEMENTS OF CHANGES IN NET ASSETS (continued)

	Class G09		Class G10	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	8,368,867	9,249,174	2,207,720	2,343,802
Increase (decrease) in net assets from operations	(2,375,679)	299,228	(481,752)	84,462
Capital transactions				
Subscriptions	5,102,053	818,688	-	-
Redemptions	(3,964,231)	(1,998,223)	(720,421)	(220,544)
Total capital transactions	1,137,822	(1,179,535)	(720,421)	(220,544)
Net assets - end of period	<b>7,131,010</b>	8,368,867	<b>1,005,547</b>	2,207,720
	Class G11		Class G15	
	2013 \$	2012 \$	2013 \$	2012 \$
Net assets - beginning of period	3,618,197	3,910,880	532,926	512,954
Increase (decrease) in net assets from operations	(637,593)	132,187	(122,206)	19,972
Capital transactions				
Subscriptions	-	-	-	-
Redemptions	(938,262)	(424,870)	-	-
Total capital transactions	(938,262)	(424,870)	-	-
Net assets - end of period	<b>2,042,342</b>	3,618,197	<b>410,720</b>	532,926
	Total			
	2013 \$	2012 \$		
Net assets - beginning of period	373,493,599	368,854,926		
Increase (decrease) in net assets from operations	(89,676,371)	4,539,897		
Capital transactions				
Subscriptions	47,439,913	52,756,062		
Redemptions	(79,550,492)	(52,657,286)		
Total capital transactions	(32,110,579)	98,776		
Net assets - end of period	<b>251,706,649</b>	373,493,599		

See accompanying notes

## STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2013

	Allocated ounces	Unallocated ounces	Total Fine ounces	Average Cost \$	Fair Value \$	Total %
Gold Bullion	78,471.059	548.368	79,019.427	78,679,572	100,875,366	39.97
Platinum Bullion	39,487.022	436.645	39,923.667	59,173,652	57,605,143	22.82
Silver Bullion	4,454,465.043	33,817.371	4,488,282.414	73,217,798	92,991,253	36.84
Cash				927,407	925,522	0.37
<b>Total Investment</b>				<b>211,998,429</b>	<b>252,397,285</b>	<b>100.00</b>

BMG BullionFund's assets are held pursuant to a custodial agreement with a major Canadian Chartered Bank (or subsidiary thereof) on an allocated, segregated basis.

The allocated bullion is recorded by Refinery, Exact Weight in Ounces and Identification Number.

BMG BullionFund's bullion is free and clear of any lien or claim that the major Canadian Chartered Bank (or subsidiary thereof) may have, except where the claim arises from any unpaid costs.



## NOTES TO FINANCIAL STATEMENTS

### 1. Formation of the Fund

BMG BullionFund (the “BMG Fund”) was established under the laws of Ontario by a Master Declaration of Trust and a Regulation each dated January 15, 2002, as amended. Bullion Management Services Inc. (the “Manager”) is the trustee and manager of the BMG Fund. The BMG Fund currently offers 14 classes of units. These financial statements pertain to Class A, Class B3, Class E09, Class E10, Class E11, Class E12, Class E15, Class F, Class G01, Class G05, Class G09, Class G10, Class G11 and Class G15.

The inception dates of the classes are as follows:

Class A	March 5, 2002	Class F	September 15, 2004
Class B3	November 11, 2013	Class G01	November 1, 2006
Class E09	November 27, 2007	Class G05	June 20, 2005
Class E10	April 7, 2008	Class G09	July 6, 2005
Class E11	January 25, 2006	Class G10	May 17, 2006
Class E12	January 19, 2011	Class G11	October 14, 2005
Class E15	February 20, 2008	Class G15	August 21, 2009

The BMG Fund is also authorized to issue Class I, Class S1 and Class S2 units, none of which have been issued. All classes share the same attributes from a valuation perspective, except that they are subject to different management fee rates.

The BMG Fund invests in equal dollar proportions of unencumbered gold, silver and platinum bullion, with the objective of providing a secure, convenient, low-cost, medium-risk alternative for investors seeking to hold bullion for capital preservation, long-term appreciation, portfolio diversification and portfolio hedging purposes. The BMG Fund’s fixed investment strategy avoids the need for a portfolio manager.

### 2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include estimates and assumptions made by the Manager that affect the amounts of assets, liabilities, income and expenses during the reporting periods. The significant accounting policies are summarized below:

#### Designation of Financial Assets and Liabilities

For the purpose of measuring and recognizing financial assets and liabilities shown on the Statements of Net Assets, each financial asset and financial liability is designated as follows: All bullion investments are initially recognized at fair value and are designated as held for trading; cash, accounts receivable, due from manager and subscriptions receivable are reported at amortized cost and designated as loans and receivables. Similarly, accounts payable and accrued liabilities, redemptions payable and management fees payable are reported at amortized cost and designated as other financial liabilities.

#### Valuation of Investments

Gold and platinum bullion are valued at the London PM Fix price, and silver bullion is valued at the London Fix price, when the London market is open for trading. Each is an internationally recognized price benchmark set by the London Bullion Market Association for gold and silver, and by the London Platinum and Palladium Market for platinum. Gold and platinum have a price fix generally set twice daily, and are identified by AM or PM suffixes. Silver has one price fix per day. COMEX closing prices will be used when the London market is not open. The difference between this amount and the average cost is being shown as unrealized appreciation (depreciation) of investments.

The market values of investments denominated in foreign currencies are translated into Canadian dollars at the rates of exchange applicable on the relevant valuation date.

*CICA Handbook 3862, Financial Instruments - Disclosures* requires the BMG Fund to classify fair value measurements using a three-tier hierarchy. Since bullion trades in active markets, it is classified as Level 1—Measurement with unadjusted quoted prices in active markets. The valuation of all bullion was classified as Level 1 throughout 2013 and 2012.

## NOTES TO FINANCIAL STATEMENTS (continued)

### Classification of Fair Value Measurements

The classification of fair market value measurements is as follows:

Level 1	Unadjusted quoted prices in active markets
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices)
Level 3	Unobservable inputs

### Investment Transactions, Income and Expense Recognition

Investment transactions are accounted for as of the trade date. Realized gains and losses from investment transactions are calculated on an average cost basis.

The BMG Fund follows the daily accrual method of recording investment income and expenses. Expenses specifically related to each class of units of the BMG Fund are charged directly to that class of units. Income, expenses and realized and unrealized gains (losses) are allocated to each class of the BMG Fund based on that class's pro-rated share of the total net assets of the BMG Fund.

### Foreign Currency Translation

Purchases and sales of investments are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions.

### Calculation of Net Asset Value ("NAV") Per Unit

The NAV of each class of units of the BMG Fund is calculated in Canadian dollars at 4:00 pm (Eastern Time) on each day on which the Toronto Stock Exchange is open for trading.

The NAV per unit of each class of the BMG Fund that is used for subscriptions and redemptions is the same as the net assets per unit of that class that is used in these financial statements.

A separate NAV is calculated for each class of units of the BMG Fund by taking that class's proportionate share of the BMG Fund's assets less that class's proportionate share of the BMG Fund's common liabilities and deducting from this amount all liabilities that relate solely to that specific class. The NAV per unit for each class is determined by dividing the NAV of each class by the number of units of that class outstanding at the relevant valuation date.

### Income Taxes

Any net taxable investment income and net realized capital gains during the year are distributed to the unitholders such that the BMG Fund is not subject to income tax. Accordingly, no provision for income taxes has been recorded in these financial statements.

### Increase (Decrease) in Net Assets From Operations Per Unit

Any increase (decrease) in net assets from operations per unit in the Statements of Operations represents the change in net assets from operations attributable to a class of units of the BMG Fund for the period divided by the weighted average number of units of that class of the BMG Fund outstanding during the year.

## 3. Regulatory Developments

### Future Accounting Changes

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB deferred the mandatory IFRS changeover date for Canadian investment funds to January 1, 2014.

Consequently, the BMG Fund will publish its first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013.

## NOTES TO FINANCIAL STATEMENTS (continued)

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the BMG Fund's adoption of IFRS.

The criteria contained within IAS 32 (Financial Instruments: Presentation) may require unitholders' equity to be classified as a liability within the BMG Fund's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the BMG Fund's unitholder structure to confirm the appropriate classification in accordance with IFRS. Also, the Manager is currently assessing the classification and measurement of its investments in bullion under IFRS, which may have an impact on net assets per unit (but not net asset value per unit). National Instrument 81-106 ("NI 81-106") permits investment funds to have two different net asset values: (i) one for financial statements, which is prepared in accordance with acceptable accounting principles (and referred to as "net assets"); and (ii) another for all other purposes, including unit pricing for investor transactions (referred to as "net asset value").

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a Statement of Cash Flows in the financial statements. Overall, enhanced disclosure requirements are expected.

### 4. Unitholders' Equity

The capital of the BMG Fund is represented by issued redeemable units. Each unit of each class of the BMG Fund represents an interest in the assets of that class of the BMG Fund. All units of a class of the BMG Fund generally have the same rights and privileges. Each unit of each class of the BMG Fund is entitled to one vote at any meeting of unitholders of the BMG Fund. Each unit of each class of the BMG Fund is also entitled, subject to any management fee distributions, to participate equally in any distributions by the BMG Fund. Fractional units of a class of the BMG Fund are proportionately entitled to all the same rights as other units of that class of the BMG Fund, except that they are non-voting. All units of each class of the BMG Fund are fully paid when issued, and are generally not transferable. Units of each class of the BMG Fund are redeemable at the option of the unitholder owning such units. The number of units of the BMG Fund that may be issued is unlimited. The units of each class of the BMG Fund are issued and redeemed at the NAV per unit of that class of the BMG Fund.

#### Unitholder transactions during the years ended December 31

	Class A		Class B3	
	2013	2012	2013	2012
Balance - beginning of period	24,078,744	23,010,538	-	-
Issued	2,794,737	3,317,542	50,000	-
Redeemed	(5,212,502)	(2,249,336)	-	-
<b>Balance - end of period</b>	<b>21,660,979</b>	<b>24,078,744</b>	<b>50,000</b>	<b>-</b>
Average units outstanding	23,116,698	23,588,247	50,000	-
	Class E09		Class E10	
	2013	2012	2013	2012
Balance - beginning of period	15,266	15,266	27,934	27,934
Issued	469	-	-	-
Redeemed	(3,080)	-	-	-
<b>Balance - end of period</b>	<b>12,655</b>	<b>15,266</b>	<b>27,934</b>	<b>27,934</b>
Average units outstanding	12,590	15,266	27,934	27,934
	Class E11		Class E12	
	2013	2012	2013	2012
Balance - beginning of period	643,732	643,732	350,887	349,596
Issued	4,766	-	6,415	40,758
Redeemed	(136,267)	-	(68,147)	(39,467)
<b>Balance - end of period</b>	<b>512,231</b>	<b>643,732</b>	<b>289,155</b>	<b>350,887</b>
Average units outstanding	550,859	643,732	330,220	350,515

## NOTES TO FINANCIAL STATEMENTS (continued)

	Class E15		Class F	
	2013	2012	2013	2012
Balance - beginning of period	223,856	269,715	2,692,893	2,935,910
Issued	-	1,706	711,752	524,381
Redeemed	(22,189)	(47,565)	(1,169,604)	(767,398)
<b>Balance - end of period</b>	<b>201,667</b>	<b>223,856</b>	<b>2,235,041</b>	<b>2,692,893</b>
Average units outstanding	216,781	253,838	2,420,588	2,777,139

  

	Class G01		Class G05	
	2013	2012	2013	2012
Balance - beginning of period	1,003,989	1,584,721	73,888	173,138
Issued	267,999	104,488	5,623	7,740
Redeemed	(322,258)	(685,220)	(5,522)	(106,990)
<b>Balance - end of period</b>	<b>949,730</b>	<b>1,003,989</b>	<b>73,989</b>	<b>73,888</b>
Average units outstanding	1,088,689	1,325,033	75,885	105,003

  

	Class G09		Class G10	
	2013	2012	2013	2012
Balance - beginning of period	633,188	717,376	166,878	181,878
Issued	451,139	60,673	-	-
Redeemed	(375,233)	(144,861)	(66,981)	(15,000)
<b>Balance - end of period</b>	<b>709,094</b>	<b>633,188</b>	<b>99,897</b>	<b>166,878</b>
Average units outstanding	731,342	676,272	149,812	169,501

  

	Class G11		Class G15	
	2013	2012	2013	2012
Balance - beginning of period	270,000	300,000	37,728	37,728
Issued	-	-	-	-
Redeemed	(70,000)	(30,000)	-	-
<b>Balance - end of period</b>	<b>200,000</b>	<b>270,000</b>	<b>37,728</b>	<b>37,728</b>
Average units outstanding	210,548	278,689	37,728	37,728

### 5. Management Fees and Sales Commission

The Manager is responsible for the day-to-day activities of the BMG Fund, providing or arranging for all required administrative services and arranging for the distribution of units of the BMG Fund. For these services, the BMG Fund pays the Manager an annual management fee as defined by the rates set out below. The fees are payable monthly in arrears based on the average daily net assets of the BMG Fund.

Class A	2.25%	Class F	1.25%
Class B3	1.25%	Class G01	2.25%
Class E09	1.25%	Class G05	1.75%
Class E10	1.125%	Class G09	1.25%
Class E11	1.00%	Class G10	1.125%
Class E12	0.875%	Class G11	1.00%
Class E15	0.50%	Class G15	0.50%

A sales commission may be charged by a registered dealer or representative at the time an investor buys Class A units, Class B units, Class E units, Class G units or Class S units of the BMG Fund. The maximum amount of the sales commission for Classes A, B, E and G is 5.26 percent of the net amount invested. The sales commission is only negotiable for Classes A, B, E and G. No sales commission is currently charged for the other classes of units of the BMG Fund.

The Manager paid trailer fees to dealers of \$2,554,737 during the 2013 fiscal year [2012: \$3,009,296].

## NOTES TO FINANCIAL STATEMENTS (continued)

### 6. Related-Party Transaction

The Manager held units in the following Class as at December 31:

	2013	2012
Class A	1	1

### 7. Income Tax Loss Carryforwards

The BMG Fund has non-capital loss carryforwards of approximately \$31,925,000 [2012: \$28,713,000] available to offset future years' taxable income.

Non-capital losses expire in the taxation year ending December 31:

Year	\$
2014	\$857,000
2015	\$914,000
2026	\$888,000
2027	\$3,432,000
2028	\$5,027,000
2029	\$2,727,000
2030	\$3,094,000
2031	\$5,556,000
2032	\$6,218,000
2033	\$3,212,000

### 8. Financial Risk Management

The BMG Fund's financial instruments consist primarily of cash, accounts receivable, subscriptions receivable, due from manager and bullion investments. The BMG Fund's cash and bullion holdings are exposed to various types of risks including market risk, credit risk, liquidity risk, interest rate risk and currency risk. These risks and related risk management practices employed by the BMG Fund are described below.

#### Market Risk

Market risk is the risk that the fair value or future cash flows of bullion investments will fluctuate because of changes in market prices or transaction timing. The market price of gold, silver and platinum is impacted by a variety of factors including demand, supply, international events and economic events. The BMG Fund employs a purchase-and-hold investment strategy with purchases allocated one-third to each of gold, silver and platinum bullion. Since the BMG Fund does not lease bullion, the only future cash flows will be from dispositions of bullion. Dispositions of bullion will be necessary to pay redemptions when cash reserves are not adequate.

As at December 31, 2013 and 2012, the impact on the BMG Fund's net assets if there were a 5 percent increase, or decrease, in the price of gold, silver and platinum bullion, with all other variables held constant, would be an increase, or decrease, of \$12,573,588 [2012: \$18,629,357] or 5.00 percent [2012: 4.99 percent].

The actual results will vary depending upon the quantity of bullion held and other factors, and the difference may be material. The risk has not changed from the prior year.

#### Credit Risk

As at December 31, 2013, the BMG Fund had no significant investments in debt instruments and/or derivatives. The BMG Fund limits its exposure to credit loss by placing its cash and cash equivalents in high-credit-quality issuers. Dispositions of bullion, if any, are with a major Canadian Chartered Bank (or subsidiary thereof) that is a recognized dealer in bullion. The BMG Fund may have credit exposure to the Canadian Chartered Bank (or subsidiary thereof) to the extent of any unsettled trades. The risk has not changed from the prior year.

## NOTES TO FINANCIAL STATEMENTS (continued)

### Liquidity Risk

The BMG Fund is exposed to daily cash redemptions of redeemable units. The BMG Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. In addition, bullion is readily realizable and liquid, therefore the BMG Fund's liquidity risk is minimal. All liabilities are payable within a year. The risk has not changed from the prior year.

### Interest Rate Risk

The majority of the BMG Fund's financial assets and liabilities were non-interest-bearing as at December 31, 2013 and 2012. Accordingly, the BMG Fund is not directly exposed to significant risk due to fluctuations in the prevailing levels of market interest rates. The risk has not changed from the prior year.

### Currency Risk

Bullion is generally quoted and traded in US dollars and, as a result, the BMG Fund is subject to foreign currency risk. The BMG Fund does not hedge its foreign currency exposure.

The BMG Fund holds cash in Canadian and US dollars to pay redemptions and operating costs. The Manager monitors the cash balance of the BMG Fund on a daily basis and only purchases bullion when surplus cash is available. Normally the cash balance is less than 5 percent of the assets of the BMG Fund.

As at December 31, 2013, 100 percent [2012: 99.8 percent] of the BMG Fund's net assets were exposed to US dollars. If the exchange rate with the Canadian dollar increased or decreased by 1 percent, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$2,517,427 [2012: \$3,728,224].

The actual results may differ from this sensitivity analysis and the difference could be material, because the price of bullion tends to be negatively correlated with the US dollar. The risk has not changed from the prior year.

### Foreign Currency Exposure

#### December 31, 2013

Description	US \$	Canada \$	Total \$
Cash	334,642	590,880	925,522
Bullion	251,471,762	-	251,471,762
Other Net Assets	(63,741)	(626,894)	(690,635)
Net Assets	251,742,663	(36,014)	251,706,649
Percent	100.0%	0.0%	100.0%

#### December 31, 2012

Description	US \$	Canada \$	Total \$
Cash	317,136	1,477,490	1,794,626
Bullion	372,587,139	-	372,587,139
Other Net Assets	(81,869)	(806,297)	(888,166)
Net Assets	372,822,406	671,193	373,493,599
Percent	99.8%	0.2%	100.0%

The BMG Group of Companies includes the parent company, Bullion Management Group Inc., and its wholly owned subsidiaries, Bullion Management Services Inc., Bullion Marketing Services Inc., BMG DSC Inc., Bullion Management Group (Asia) Limited and Bullion Custodial Services Inc., and its wholly owned subsidiary, International Bullion Sales Corporation (collectively "BMG").

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