

BMG Gold BullionFund

Semi-Annual Financial Statements

For the six months ended June 30, 2014 (Unaudited)



**BULLION
MANAGEMENT
SERVICES INC.**

A BMG Company

TABLE OF CONTENTS

Condensed Statements of Financial Position	3
Condensed Statements of Comprehensive Income (Loss)	4
Condensed Statements of Changes in Net Assets Attributable to Holders of Redeemable Units	5
Condensed Statements of Cash Flows	5
Schedule of Investments	6
Notes to Condensed Financial Statements	6

CONDENSED STATEMENTS OF FINANCIAL POSITION

As at June 30, 2014, December 31, 2013, and January 1, 2013

(Unaudited)

	June 30, 2014	December 31, 2013	January 1, 2013
	\$	\$	\$
ASSETS			
Current assets			
Cash	739,478	335,306	803,136
Investments in gold bullion [Average cost \$111,885,798; December 2013 - \$121,621,509, January 2013 - \$133,062,234]	111,324,858	110,318,109	157,058,007
Accounts receivable	-	197,000	-
Subscriptions receivable	28,623	52,334	281,116
Due from Manager (note 4)	88,921	19,027	1,194
Total assets	112,181,880	110,921,776	158,143,453
LIABILITIES			
Current liabilities			
Management fees payable	212,191	223,441	312,380
Redemptions payable	120,095	252,886	60,484
Accounts payable and accrued liabilities	157,374	85,420	367,336
Total liabilities (excluding net assets attributable to holders of redeemable units)	489,660	561,747	740,200
Net assets attributable to holders of redeemable units	111,692,220	110,360,029	157,403,253
Net assets attributable to holders of redeemable units per class (note 3)			
Class A	93,864,279	92,288,730	132,887,184
Class C3	759,468	-	-
Class F	3,810,418	5,832,167	10,164,022
Class G01	2,934,747	3,299,631	5,410,986
Class G05	53,060	49,016	65,296
Class G09	6,664,326	5,391,548	1,988,033
Class G15	1,119	8,321	10,876
Class I	2,113,095	1,883,132	1,700,800
Class S1	1,365,064	1,460,359	3,629,254
Class S2	126,644	147,125	1,546,802
	111,692,220	110,360,029	157,403,253

Net asset value per unit is disclosed in note 3.

See accompanying notes.

On behalf of the Board of Directors of Bullion Management Services Inc.,
Trustee and Manager of BMG Gold BullionFund



Nick Barisheff
Director



Hema Anganu
Director

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the six months ended June 30

(Unaudited)

	2014 \$	2013 \$
INVESTMENT INCOME		
Net change in unrealized gain/(loss) on investments in gold bullion	10,742,460	(37,627,122)
Net realized gains on investments in gold bullion	(96,711)	933,411
Foreign exchange gains/(losses)	(2,620)	52,584
Early redemption fees	486	2,186
Other	1,812	10,094
Total investment income (loss)	10,645,427	(36,628,847)
EXPENSES		
Management fees (note 5)	1,220,584	1,480,369
Security holder reporting costs	202,061	173,144
Bullion storage fees	87,765	103,786
Services tax	194,920	207,392
Other administrative expenses	23,180	29,180
Legal fees	3,596	-
Audit fees	12,080	22,375
Filing fees	30,880	18,075
Independent Review Committee fees	1,030	535
Interest and bank charges	66	395
Total expenses	1,776,162	2,035,251
Expenses absorbed by Manager	(88,921)	(11,885)
Total expenses after absorption	1,687,241	2,023,366
Increase (decrease) in net assets attributable to holders of redeemable units	8,958,186	(38,652,213)
Increase (decrease) in net assets attributable to holders of redeemable units per class (note 3)		
Class A	7,317,019	(32,912,598)
Class C3	(61,751)	-
Class F	636,780	(2,203,787)
Class G01	288,148	(1,373,570)
Class G05	4,044	(16,379)
Class G09	445,382	(799,189)
Class G15	547	(2,653)
Class I	182,963	(667,503)
Class S1	132,115	(621,236)
Class S2	12,939	(55,298)
	8,958,186	(38,652,213)

See accompanying notes.

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the six months ended June 30

(Unaudited)

	2014 \$	2013 \$
Net assets attributable to holders of redeemable units, beginning of period	110,360,029	157,403,253
Issue of redeemable units	8,311,657	16,100,995
Redemption of redeemable units	(15,937,652)	(21,427,135)
Increase/(decrease) in net assets attributable to holder of redeemable units	8,958,186	(38,652,213)
Net assets attributable to holders of redeemable units, end of period	111,692,220	113,424,900

See accompanying notes.

CONDENSED STATEMENTS OF CASH FLOWS

For the six months ended June 30

(Unaudited)

	2014 \$	2013 \$
CASH FLOW FROM OPERATING ACTIVITIES		
Increase/(decrease) in net assets attributable to holders of redeemable units	8,958,186	(38,652,213)
Adjustment to reconcile net increase/(decrease) in net assets resulting from operations to net cash provided by/(used in) operating activities		
Purchase of investments in gold bullion	(1,647,998)	(6,337,000)
Proceeds from sales of investments in gold bullion	11,286,998	13,247,001
Net realized (gain)/loss on investments in gold bullion	96,711	(933,411)
Net change in unrealized (gain)/loss on investments in gold bullion	(10,742,460)	37,627,122
Net changes in non-cash operating balances:		
(Increase)/decrease in accounts receivable	197,000	-
(Increase)/decrease in due from manager	(69,894)	(10,691)
Increase/(decrease) in management fee payable	(11,250)	(86,524)
Increase/(decrease) in accounts payable and accrued liabilities	71,954	(251,543)
Net cash provided by operating activities	8,139,247	4,602,741
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of redeemable units	8,311,657	16,100,995
Decrease in subscriptions receivable	23,711	90,313
Amounts paid on redemption of redeemable units	(15,937,652)	(21,427,135)
Increase/(decrease) in redemptions payable	(132,791)	347,995
Net cash used in financing activities	(7,735,075)	(4,887,832)
Net increase/(decrease) in cash during the period	404,172	(285,091)
Cash, beginning of the period	335,306	803,136
Cash, end of period	739,478	518,045

See accompanying notes.

SCHEDULE OF INVESTMENTS

As at June 30, 2014

(Unaudited)

	Allocated ounces	Unallocated ounces	Total Fine ounces	Average Cost \$	Fair Value \$	Total %
Gold Bullion	78,949.881	529.295	79,479.176	111,885,798	111,324,858	99.34
Cash				741,367	739,478	0.66
Total Investment				112,627,165	112,064,336	100.00

The Fund'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.

The Fund'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 CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Formation of the Fund

BMG Gold BullionFund (the "Fund") was established under the laws of Ontario by a Master Declaration of Trust and Regulation each dated September 4, 2009, as amended. The address of the Fund's registered office is: 280-60 Renfrew Drive, Markham, ON, L3R 0E1. Bullion Management Services Inc. (the "Manager") is the trustee and manager of the Fund. The Fund currently offers ten classes of units.

These financial statements pertain to Class A, Class C3, Class F, Class G01, Class G05, Class G09, Class G15, Class I, Class S1 and Class S2 units. The inception dates of the classes are as follows:

Class A	September 4, 2009	Class G09	June 10, 2010
Class C3	March 12, 2014	Class G15	May 13, 2011
Class F	January 18, 2010	Class I	September 5, 2012
Class G01	August 31, 2010	Class S1	November 9, 2010
Class G05	October 6, 2011	Class S2	November 9, 2010

All classes share the same attributes from a valuation perspective, except that they are subject to different management fee rates.

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (*continued*)

(Unaudited)

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation and adoption of IFRS

These unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Fund adopted this basis of accounting in 2014, as required by Canadian securities regulation and the Canadian Accounting Standards Board. Previously, the Fund prepared interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles as defined in Part V of the CICA Handbook (“Canadian GAAP”). As these are the Fund’s first financial statements prepared using IFRS, they have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (“IAS 34”) and IFRS 1 – *First-Time Adoption of International Financial Reporting Standards* (“IFRS 1”). They have been prepared using the accounting policies that the Fund expects to be in effect as of and for the year ended December 31, 2014. These unaudited interim financial statements do not include all of the information required for full annual financial statements. An explanation of how the transition from Canadian GAAP to IFRS has affected the statements of financial position, statements of comprehensive income (loss), and statements of changes in net assets attributable to holders of redeemable units is provided in note 10.

These unaudited interim financial statements for the six months ended June 30, 2014 were authorized for issue by the Board of Directors on August 14, 2014.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, and are presented in Canadian dollars, which is the Fund’s functional currency.

Financial Instruments

(a) Classification

The Fund classifies its investments in gold bullion at fair value through profit or loss.

This category has two subcategories: financial assets or financial liabilities held for trading; and financial assets or financial liabilities designated at fair value through profit or loss at inception.

i) *Financial assets and liabilities held for trading*

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together, and for which there is evidence of a recent actual pattern of short-term profit taking.

ii) *Financial assets and liabilities designated at fair value through profit or loss at inception*

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund’s documented investment strategy.

The Fund classifies financial assets and financial liabilities other than its investments in gold bullion into the following categories:

- Financial asset at amortized cost and designated as loans and receivable: Cash, accounts receivable, due from manager and subscriptions receivable.
- Financial liabilities at amortized cost and designated as other financial liabilities: Accounts payable and accrued liabilities, redemptions payable and management fees payable.

NOTES TO CONDENSED FINANCIAL STATEMENTS *(continued)*

(Unaudited)

(b) Recognition/derecognition

Purchases and sales of investments in gold bullion are recognized on the trade date, the date on which the Fund commits to purchase or sell the investment. For financial assets acquired, cost is the fair value of the consideration given, while for financial liabilities, cost is the fair value of the consideration received. Transaction costs for such instruments are recognized directly in the statement of comprehensive income (loss) as incurred. Financial assets classified as loans and receivables are recognized on the day that they are transferred to the Fund at fair value, plus transaction costs that are directly attributable to their acquisition or issue.

Financial assets are derecognized when the rights to receive cash flows from the investments in gold bullion have expired, or the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities, other than those at fair value through profit or loss, are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition or issue. Financial liabilities arising from the redeemable units issued by the Fund are presented at the redemption amount representing the investors' right to a residual interest in the Fund's assets. Financial liabilities are not recognized unless one of the parties has performed its obligation.

Realized gains and losses on investments in gold bullion are recognized in the statement of comprehensive income (loss). Costs of investments in gold bullion are determined on an average cost basis.

(c) Subsequent measurement

Subsequent to initial recognition, the Fund measures all financial instruments classified at fair value through profit or loss at fair value, with changes in the fair value recognized in the statement of comprehensive income (loss). Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments traded in active markets is based on their quoted market prices at the close of trading on the reporting date. The fair value of financial instruments that are not traded in an active market is determined using a valuation technique, or sourced from a reputable broker/counterparty.

(d) Fair value measurement

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date.

Gold bullion is valued at fair value by using the London PM Fix price when the London market is open for trading. This is an internationally recognized price benchmark set by the London Bullion Market Association. Gold has a price fix generally set twice daily, and identified by an AM or PM suffixes. 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 net change in unrealized gain/(loss) on investment in bullion

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.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

(e) Classification of Fair value measurement

IFRS 13 requires the Fund to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:

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

Fair value of investments in gold bullion is classified at Level 1 within the fair value hierarchy.

Income and Expense Recognition

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

Foreign Currency Translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses are presented in the statements of comprehensive income (loss).

Offsetting Financial Instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets measured at amortized cost is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's amortized cost and the present value of estimated future cash flows discounted using the asset's original effective interest rate. Impairment losses on assets measured at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Calculation of Per Unit Net Asset Value ("NAV") Attributable to Holders of Redeemable Units

The NAV of each class of units of the Fund is calculated in Canadian dollars at 4:00 p.m. (EST) on each day that the Toronto Stock Exchange is open for trading.

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

A separate NAV is calculated for each class of units of the Fund by taking that class's proportionate share of the Fund's assets less that class's proportionate share of the 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.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient capital gains realized in any period are required to be distributed to unitholders such that no tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset. Refer to Note 6 for unused losses.

Increase (Decrease) in Per Unit Net Assets Attributable to Holders of Redeemable Units

Any increase (decrease) in per unit net assets attributed to holders of redeemable units represents the change in net assets attributable to holders of redeemable units of each class divided by the weighted average number of units of that class of the Fund outstanding during the period (see note 3).

Critical Estimates and Judgements

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision effects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Board of Directors considers the currency of the primary economic environment in which the Fund operates to be the Canadian dollar, as this is the currency that, in their opinion, most faithfully represents the economic effects of underlying transactions, events and conditions. Furthermore, the Canadian dollar is the currency in which the Fund measures its performance and also issues and redeems its redeemable units.

3. Redeemable Units

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

Unitholder transactions during the six months ended June 30:

	Class A		Class C3	
	2014	2013	2014	2013
Balance - beginning of period	21,089,045	22,643,692	-	-
Issued	1,113,508	1,618,729	82,843	-
Redeemed	(2,339,345)	(2,412,320)	-	-
Balance - end of period	19,863,208	21,850,101	82,843	-
Average units outstanding	20,688,672	22,349,522	76,745	-

	Class F		Class G01	
	2014	2013	2014	2013
Balance - beginning of period	1,183,930	1,556,336	358,522	438,717
Issued	94,719	276,232	11,502	71,860
Redeemed	(565,962)	(559,135)	(74,709)	(112,149)
Balance - end of period	712,687	1,273,433	295,315	398,428
Average units outstanding	868,292	1,427,093	311,668	458,887

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

	Class G05		Class G09	
	2014	2013	2014	2013
Balance - beginning of period	6,639	6,639	556,044	154,734
Issued	-	-	107,021	242,253
Redeemed	-	-	(29,869)	(11,885)
Balance - end of period	6,639	6,639	633,196	385,102
Average units outstanding	6,639	6,639	586,965	202,916

	Class G15		Class I	
	2014	2013	2014	2013
Balance - beginning of period	968	968	246,959	171,498
Issued	119	-	36,610	213,204
Redeemed	(968)	-	(30,807)	(116,048)
Balance - end of period	119	968	252,762	268,654
Average units outstanding	180	968	255,227	255,839

	Class S1		Class S2	
	2014	2013	2014	2013
Balance - beginning of period	178,190	336,896	17,833	141,884
Issued	-	-	-	-
Redeemed	(25,126)	(112,650)	(3,625)	(121,445)
Balance - end of period	153,064	224,246	14,208	20,439
Average units outstanding	162,737	239,581	15,020	45,218

Total net assets attributable to holders of redeemable units per class and per unit For the six months ended June 30, 2014

	Net assets attributable to holders of redeemable units, beginning of period	Subscriptions	Redemptions	Increase/ (decrease) in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period	Net assets attributable to holders of redeemable units per unit	Increase/ (decrease) in net assets attributable to holders of redeemable units per unit
	\$	\$	\$	\$	\$	\$	\$
Class A	92,288,730	5,414,921	(11,156,391)	7,317,019	93,864,279	4.73	0.35
Class C3	-	821,219	-	(61,751)	759,468	9.17	(0.80)
Class F	5,832,167	515,962	(3,174,491)	636,780	3,810,418	5.35	0.73
Class G1	3,299,631	115,426	(768,458)	288,148	2,934,747	9.94	0.92
Class G5	49,016	-	-	4,044	53,060	7.99	0.61
Class G9	5,391,548	1,138,042	(310,646)	445,382	6,664,326	10.52	0.76
Class G15	8,321	1,087	(8,836)	547	1,119	9.40	3.04
Class I	1,883,132	305,000	(258,000)	182,963	2,113,095	8.36	0.72
Class S1	1,460,359	-	(227,410)	132,115	1,365,064	8.92	0.81
Class S2	147,125	-	(33,420)	12,939	126,644	8.91	0.86
Total	110,360,029	8,311,657	(15,937,652)	8,958,186	111,692,220	N/A	N/A

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

For the six months ended June 30, 2013

	Net assets attributable to holders of redeemable units, beginning of period	Subscriptions	Redemptions	Decrease in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period	Net assets attributable to holders of redeemable units per unit	Decrease in net assets attributable to holders of redeemable units per unit
	\$	\$	\$	\$	\$	\$	\$
Class A	132,887,184	8,820,567	(13,067,922)	(32,912,598)	95,727,231	4.38	(1.47)
Class F	10,164,022	1,720,060	(3,435,976)	(2,203,787)	6,244,319	4.90	(1.54)
Class G1	5,410,986	825,789	(1,191,274)	(1,373,570)	3,671,931	9.22	(2.99)
Class G5	65,296	-	-	(16,379)	48,917	7.37	(2.47)
Class G9	1,988,033	2,670,579	(143,426)	(799,189)	3,715,997	9.65	(3.94)
Class G15	10,876	-	-	(2,653)	8,223	8.49	(2.74)
Class I	1,700,800	2,064,000	(1,078,000)	(667,503)	2,019,297	7.52	(2.61)
Class S1	3,629,254	-	(1,186,601)	(621,236)	1,821,417	8.12	(2.59)
Class S2	1,546,802	-	(1,323,936)	(55,298)	167,568	8.20	(1.22)
Total	157,403,253	16,100,995	(21,427,135)	(38,652,213)	113,424,900	N/A	N/A

4. Related-Party Transactions

Management Fees

The Manager is responsible for the day-to-day activities of the Fund, providing or arranging for all required administrative services, and arranging for the distribution of units of the Fund. For these services, the 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 Fund.

Class A	2.25%	Class G09	1.25%
Class C3	0.75%	Class G15	0.50%
Class F	1.25%	Class I	negotiable
Class G01	2.25%	Class S1	0.45%
Class G05	1.75%	Class S2	0.95%

For the six months ended June 30, 2014 the Fund incurred management fees of \$1,220,584 [2013: \$1,480,369].

For the six months ended June 30, 2014, the Manager absorbed Fund operating expenses of \$88,921 [2013: \$11,885]. The decision to reduce expenses is made at the discretion of the Manager and may be changed at any time.

Holdings of Related Party

The Manager held units in the following Class as at June 30, 2014 and December 31, 2013:

	2014	2013
Class A	51,062	51,062
Class G15	119	-

BMG Gold Advantage Return BullionFund held units in the following Class as at June 30, 2014 and December 31, 2013:

	2014	2013
Class I	252,762	246,959

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

5. Sales Commission

A sales commission may be charged by a registered dealer or representative at the time an investor buys Class A units, Class G units or Class S units of the Fund. The maximum amount of the sales commission for Classes A and G is 5.26% of the net amount invested, and for Class S 5.82% of the net amount invested. The sales commission is only negotiable for Classes A and G. No sales commission is currently charged for the other classes of units of the Fund.

The Manager paid trailer fees to dealers of \$505,690 during the first six months of 2014 [2013: \$627,144].

6. Income Tax Loss Carryforwards

The Fund has non-capital loss carryforwards of approximately \$12,162,000 [2013: \$8,659,000] available to offset future years' taxable income.

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

Year	\$
2029	3,000
2030	1,518,000
2031	2,223,000
2032	3,540,000
2033	3,290,000
2034	1,588,000

7. Financial Risk Management

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

Market Risk

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

As at June 30, 2014, the impact on the Fund's net assets if there were a 5% increase or decrease in the price of gold bullion, with all other variables held constant, would be an increase, or decrease, of \$5,566,243 [December 31, 2013: \$5,515,905] or 5% [December 31, 2013: 5%].

The actual result will vary depending upon the quantity of gold held and other factors, and the difference may be material.

Credit Risk

As at June 30, 2014, the Fund had no significant investments in debt instruments and/or derivatives. The Fund limits its exposure to credit loss by placing its cash 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 Fund may have credit exposure to the Canadian chartered bank (or subsidiary thereof) to the extent of any unsettled trades.

Liquidity Risk

The Fund is exposed to daily cash redemptions of redeemable units. The Fund aims to retain sufficient cash positions to maintain liquidity. In addition, gold bullion is readily realizable and liquid. Therefore, the Fund's liquidity risk is minimal. All liabilities are payable within a year. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for longer periods.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

Interest Rate Risk

The majority of the Fund's financial assets and liabilities were non-interest-bearing as at June 30, 2014 and December 31, 2013. Accordingly, the Fund is not directly exposed to significant risk due to fluctuations in the prevailing levels of market interest rates.

Currency Risk

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

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

As at June 30, 2014, 99.8% [December 31, 2013: 100.2%] of the Fund's net assets were exposed to US dollars. If the exchange rate with the Canadian dollar increased or decreased by 1% with all other variables held constant, net assets would have increased or decreased respectively by approximately \$1,114,713 [December 31, 2013: \$1,105,622].

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.

Foreign Currency Exposure June 30, 2014

Description	US \$	Canada \$	Total \$
Cash	161,668	577,810	739,478
Investments in gold bullion	111,324,858	-	111,324,858
Other Net Assets	(15,267)	(356,849)	(372,116)
Net Assets	111,471,259	220,961	111,692,220
Percent	99.8%	0.2%	100.0%

December 31, 2013

Description	US \$	Canada \$	Total \$
Cash	261,303	74,003	335,306
Investments in gold bullion	110,318,109	-	110,318,109
Other Net Assets	(17,258)	(276,128)	(293,386)
Net Assets	110,562,154	(202,125)	110,360,029
Percent	100.2%	(0.2%)	100.0%

January 01, 2013

Description	US \$	Canada \$	Total \$
Cash	430,849	372,287	803,136
Investments in gold bullion	157,058,007	-	157,058,007
Other Net Assets	(25,239)	(432,651)	(457,890)
Net Assets	157,463,617	(60,364)	157,403,253
Percent	100.0%	0.0%	100.0%

NOTES TO CONDENSED FINANCIAL STATEMENTS (*continued*)

(Unaudited)

8. Capital Management

Redeemable units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Unitholders are entitled to require payment of the net asset value per unit of the Fund for all or any of the units of such unitholder by giving written notice to the Manager. The written notice must be received no later than 4:00 p.m. EST on the valuation day upon which the units are to be redeemed. Additionally, the notice must be irrevocable and the signature thereon must be guaranteed by a Canadian chartered bank, a trust company or an investment dealer acceptable to the Manager. The units are redeemable for cash equal to a pro rata share of the Fund's net asset value.

9. Fair Value Measurement

All fair value measurements above are recurring. The carrying values of cash, accounts receivable, due from manager, subscriptions receivable, accounts payable and accrued liabilities, redemptions payable and management fees payable and the Fund's obligation for net assets attributable to holders of redeemable units approximate their fair values because of their short-term nature. Fair values are classified as Level 1 when the related investment is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are classified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

There were no transfers between levels for the period ended June 30, 2014 and the year ended December 31, 2013. In addition, there were no investments or transactions classified in Level 3 for the period ended June 30, 2014 and the year ended December 31, 2013.

10. Transition to IFRS

The effect of the Fund's transition to IFRS is summarized as follows:

Transition elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets designated at FVTPL upon transition were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*.

Statement of cash flows

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. Under IFRS, IAS 1 requires that a complete set of financial statements includes a statement of cash flows for the current and comparative periods, without exception.

Revaluation of Investments in Bullion at Fair Value Through Profit or Loss (FVTPL)

Previously under Canadian GAAP, the fair value of the Fund's investments in gold bullion was measured at the London PM Fix price. Under IFRS, the Manager concluded that previous fair value measurements are representative and are used to measure the fair value of gold bullion investments. As result, the aggregate adjustment to net assets attributable to holders of redeemable units as at January 1, 2013 is nil.

Classification of redeemable units issued by the Fund

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units that include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. The Fund's units do not meet the criteria in IAS 32 for classification as equity, and have therefore been reclassified as financial liabilities on transition to IFRS.

The adoption of IFRS did not result in any changes to the previously reported net assets of the Fund. Redeemable units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria under IFRS.

NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

(Unaudited)

As at January 1, 2013, throughout the year ended December 31, 2013 and the period ended June 30, 2014, redeemable units of the Fund did not meet the criteria to be classified as equity. As a result, the redeemable units have been presented as a liability in the Statement of Financial Position.

IFRS requires the presentation of a Statement of Cash Flows, including comparatives for 2013. The Fund had not previously presented this statement as permitted under previous Canadian GAAP. In addition, other statements presented have been renamed as follows:

Canadian GAAP

Statements of Net Assets

Statements of Operations

Statements of Changes in Net Assets

Statement of Investment Portfolio

IFRS

Statements of Financial Position

Statements of Comprehensive Income (Loss)

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Schedule of Investment Portfolio

11. Subsequent Event

Subject to applicable regulatory and unitholder approval, the BMG Gold Advantage Return BullionFund, an investment fund managed by the Manager, will merge into the Fund on or around August 26, 2014.

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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