ANNUAL REPORT
2005

The Millennium BullionFund

“…because the gryphons do wonderfully love the gold, which lies discovered above the ground, and do wonderfully keep it, and are very fierce upon them that touch it.”

Pomponius Mela

The Gryphon

The gryphon, symbol of Bullion Management Services Inc., is a mythical creature with the head, talons and wings of an eagle, and the body of a lion. Legends about this fantastic beast date back to 3300 BC, when a gryphon was chosen as companion to the Egyptian Pharaoh.

Blessed with the eagle's speed, flight and penetrating vision, and the lion's strength, courage and majesty, the gryphon represents intelligence and strength. Gryphons were said to have drawn the chariot of Apollo, the Sun god, across the sky each day.

Legend has it that gryphons, driven by instinct to seek out treasure, roamed the Caucasus Mountains in search of gold and precious stones. They would dig up these riches with their powerful talons, then sit and admire their treasure for hours, fascinated by the gold and gems shining in the sunlight and moonlight. They built their nests of gold and laid agates rather than eggs, making the nests a target for hunters. The gryphons became ever vigilant, protecting their nests and keeping thieves away, thus developing a reputation for being the guardians of gold. Some mythologies say that gryphon "have hoards of fabulous treasure, which they guard endlessly."

Known for centuries as the guardian of gold and a symbol of strength and vigilance, today the gryphon embodies the spirit of Bullion Management Services Inc.

President's Message

The general public, the media and most financial observers were largely unaware of the momentous event that took place on August 15, 1971. However, the implications of that event have had an enormous impact on global financial conditions ever since. On that date, US President Richard Nixon "closed the gold window". In essence, this meant the US would no longer honour the Bretton Woods Agreement of 1944, which made the US dollar the world's reserve currency, and allowed other countries to convert their US-dollar holdings into gold. In simple terms, the US defaulted. Those who may have glanced at the announcement buried within the pages of their daily newspaper were unlikely to have understood the implications for their financial future.

Under Bretton Woods, there was some control over the money supply since other currencies were convertible into US dollars, and the dollar itself was convertible into gold. With the demise of Bretton Woods, the entire world found itself on a monetary system backed by nothing more than the faith and credit of individual governments for the first time in history – a pure fiat system. This meant there were no longer any restraints on the amount of money that individual governments could create at will. As a result, a flood of paper money was unleashed globally, a trend that has increased exponentially over recent years.

The official justification for Nixon's action was that foreign central banks were getting nervous about the dollar's strength caused by a growing US federal budget deficit, and were converting US dollars into gold in increasing amounts. The US gold reserves had declined from a peak of 21,682 tonnes in 1948 to 15,821 tonnes by 1960. By the time Nixon closed the gold window, US reserves had dropped below 8,500 tonnes. Nixon could not risk any further depletion of US gold reserves.

As a consequence of Nixon's move, the US dollar declined against most currencies over the following decade, and declined 95% against gold as the price of gold shot up from *$35 per ounce to a high of $850 per ounce in 1981. The situation finally stabilized when the US Federal Reserve raised interest rates to 18%, halting further declines in the dollar and triggering a 20-year bear market in gold.

Without the fiscal restraints inherent in a gold-backed currency, politicians worldwide were able to promise social programs and expand government bureaucracies that could be delivered through borrowing money created by the central banks rather than through direct taxation. They could embark on military campaigns with borrowed dollars that future generations would have to repay. And borrow they did, particularly in the US. In 1971 the total US federal debt stood at $436 billion. Today, that number exceeds $8 trillion. The 2005 increase in the federal debt of $571 billion was more than the total debt in 1971. Worse still, when calculated in accordance with Generally Accepted Accounting Principles (GAAP), and taking unfunded Social Security and Medicare obligations into account, the total federal debt is actually $49.4 trillion. This equates to more than $160,000 for every American.

From a monetary base of about $800 billion in 1971, the growth in money supply started to accelerate exponentially from 1987 onward, as Alan Greenspan became more comfortable in his role as Federal Reserve chairman. During his term in office, he created more money than all the previous Fed chairmen *combined.* At the time of his appointment in 1987, the total broad-based money supply (M3) stood at $3.6 trillion. By the end of his 19-year tenure, it had increased nearly three-fold to a staggering $10.2 trillion. Greenspan's replacement, Ben Bernanke, is likely to surpass Greenspan's record. He earned the nickname "Helicopter Ben" following a speech in which he said, “The US government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many US dollars as it wishes at essentially no cost”, and suggested that the US Fed could resort to dropping money from helicopters if necessary. In the future, the amount of money created by the Fed will be difficult to determine since it has announced that, after March 2006, M3 will no longer be reported.

The unrestrained creation of money since 1971 has gradually been eroding the purchasing power of most currencies, and has resulted in a subtle form of indirect taxation. In terms of purchasing power, the US dollar has lost 82% as measured by the Consumer Price Index (CPI). All the world’s other major currencies, freed from the constraints of gold, have lost similar amounts. The Canadian dollar, for example, has lost 83% of its purchasing power. Today, most people view inflation as an increase in the cost of living as measured by the CPI. However, the accurate definition of inflation is an increase in the money supply that leads to rising prices. Increasing money supply is the cause; increasing prices are the effect. In recent years, most industrialized countries have been increasing M3 by more than double the reported increases in the CPI. Some of the annual increases in 2005 were: US 7.8%, Canada 8.4%, Euro zone 7.6%, and Britain 12.1%.

Apart from increases in the cost of goods and services, expanding money supply can also lead to financial bubbles. In the 1980s, Japan increased its money supply by a factor of three. This led to both a stock market bubble and a real estate bubble. Both sectors experienced massive declines when the bubbles burst, and are still more than 75% below their 1989 peaks. In the US, expansion of the money supply started to accelerate after the market crash of October 1987, when Greenspan began lowering interest rates and expanding the money supply. The excess money first flowed into NASDAQ stocks. In December 1996, Greenspan made his famous “irrational exuberance” speech as the NASDAQ approached 1,000. The market became even more “irrational”, however, and climbed to 5,000 by March 2000. When the first bubble burst, the NASDAQ lost 75% of its value, and today remains 58% below its 2000 high. As interest rates were lowered even further, new money flowed into the real-estate market, creating a housing bubble as consumers bought new homes with low-cost mortgages. The housing bubble set off a wave of consumer spending, as proceeds from mortgage refinancing were used to buy consumer products. Today the real-estate market is beginning to falter, with mortgage foreclosures and debt defaults accelerating.

> “The way our current monetary system works, the careful savings of a lifetime – including your pension – can be wiped out in an eyeblink.”
>
> Dr. Lawrence Parks – Executive Director – Foundation for the Advancement of Monetary Education

The effects of uncontrolled money expansion have already been experienced in Mexico, Brazil, Argentina, South-East Asia, Japan and Russia. Each has experienced a major currency crisis accompanied by plunging stock markets and collapsing real-estate markets, while many bonds and other debt instruments became worthless. Precious metals prices increased dramatically during these currency crises, acting in their traditional safe-haven role. Now, warnings of trouble ahead for the US dollar are being sounded. As measured by the US Dollar Index, the trade-weighted value of the dollar has declined by 25% from its peak in 2001. In gold terms, however, it has lost over 50%. Since mid-year 2005, all currencies have started to decline against the prices of gold, silver and platinum, signaling that astute investors are beginning to lose confidence in paper currencies and are turning to precious metals to preserve their wealth.

As even more credit money is created, global investors will begin to lose confidence in the US dollar and question whether the US is able to repay its massive debt obligations. The US federal budget deficit, trade deficit and current account deficit are already growing exponentially. Eventually, investors will be unwilling to purchase US debt as they have in the past. This will force the Fed to increase the money supply even further in order to purchase federal debt obligations that foreign investors are no longer interested in. As more money is created, the exchange value of the dollar will plummet even further, and foreign investors will suffer increasing currency exchange losses. Eventually they will begin selling their US investments and converting their US-dollar proceeds into other currencies and precious metals.

Just as all previous attempts to implement a purely fiat monetary system have failed, so will this 35-year paper money experiment. Throughout history, kings, emperors and politicians have never had the self-discipline to limit their spending in the absence of the restraints imposed by gold. While the timing of a US-dollar collapse and the global currency crisis that will accompany it may be difficult to predict, it looms ahead nevertheless. There is little chance that the mountain of US debt will ever be repaid, or that the US trade deficit will be reversed. Without massive inflation, the US has no way to meet its $50 trillion Social Security and Medicare obligations. As global investors look to other currencies, they will realize they are not fundamentally any better. Most foreign central banks will attempt to debase their currencies to match the decline in the US dollar in order to stay competitive in exports, resulting in a round of competing currency devaluations where all paper currencies decline relative to gold, silver and platinum. Individual investors, institutions and central banks will turn to the historical safe haven of precious metals to protect their wealth. Since all three metals are already in a supply deficit and aboveground supplies are minute in comparison to financial assets, growing demand will push precious metals' prices dramatically higher.

The ultimate consequences of Richard Nixon's decision to close the gold window on August 15, 1971 will then be understood by everyone.

*All dollar amounts expressed in US currency unless otherwise indicated.

The Role Of Precious Metals In An Investment Portfolio

While some investors view precious metals as a short-term cyclical speculation, there are actually three important reasons for including precious metals in every investment portfolio. These are: strategic asset allocation, hedging and tactical asset allocation.

STRATEGIC ASSET ALLOCATION

Strategic asset allocation is a method used to fully diversify investment portfolios by properly balancing asset classes of different correlations in order to maximize returns and minimize risk. While many investors believe their portfolios are diversified, they typically contain only three asset classes – stocks, bonds and cash. Real estate, commodities, precious metals and collectibles rarely form part of most investors' portfolios. With only three asset classes out of a total of seven, such portfolios are clearly not adequately diversified.

A recent study carried out by Ibbotson Associates, *Portfolio Diversification with Gold, Silver and Platinum,* noted that, since 1970, stock and bond correlations have increased and, contrary to popular belief, a mix of these will not result in a diversified portfolio. Today, most portfolios lack the negatively correlated asset classes – real estate, commodities and precious metals – necessary to achieve full diversification, and as a result are exposed to risk and volatility.

> **"Investors can potentially improve the reward-to-risk ratio in conservative, moderate, and aggressive asset allocations by including precious metals with allocations of 7.1%, 12.5% and 15.7% respectively."**
>
> Tom Idzorek – Director of Research – Ibbotson Associates

Ibbotson researchers constructed a composite index that held equal dollar amounts of gold, silver and platinum, and examined the correlations of that index to the other asset classes typically held in investment portfolios. The study, which examined the years 1971 to 2004, showed precious metals are the most negatively correlated asset to all other asset classes. As a result, it takes the least amount of precious metals in a portfolio to achieve maximum negative correlation and the appropriate level of diversification.

The overall performance of precious metals during the 33-year period was close to fixed income investments. Even through the long bear market of 1980 to 2002, precious metals outperformed both cash and inflation during the entire period.

From 1973 to 1984, a high inflation period, precious metals were the top-performing asset class, and the study concluded that precious metals provide an effective hedge against inflation. Precious metals were the only asset class with a negative average correlation to the other asset classes, the basis for diversification.

The Ibbotson study concluded that, by allocating from 7 to 15 percent of a portfolio to precious metals, returns would increase while risk decreased. These conclusions were not based on assumptions of a bull market in precious metals or a bear market in financial assets; they were simply based on a continuation of the returns and levels of inflation that have been prevalent recently.

HEDGING

Hedging is a strategy used to offset investment risk; the perfect hedge eliminates the possibility of future losses. The old Wall Street saying, "Put 10% of your money in gold and hope it doesn't work", succinctly summarizes the hedging attributes of precious metals. And in today's economic climate, there are plenty of risks to hedge against: currency exchange declines, loss of purchasing power and "Fat Tail" events.

> "Put 10% of your money in gold and hope it doesn't work."

Currency Exchange Risk

Currency crises have been occurring on a regular basis since 1971 when US President Richard Nixon "closed the gold window", and, globally, currencies were no longer backed by gold. When confidence in a currency wanes, people tend to flee to the safe haven of precious metals. Perhaps most famously, the gold price exploded from 75 marks per ounce to 23 trillion marks per ounce in the 1920s Weimar Republic of Germany. Mexico experienced a currency crisis in 1995, and the peso declined by about 50% against gold in approximately three months. During Indonesia's currency crisis of 1997, the rupiah lost 82% over a one-year period. In Russia's 1998 currency crisis, the ruble declined by 60% in just one month. In Argentina's 2002 currency crisis, the peso devalued to 22% of its previous level.

A currency crisis is typically triggered by excessive growth in the money supply or unsustainable government debt. Is the world's reserve currency, the US dollar, vulnerable? Total US money supply in 1971, when President Nixon ceased dollars-to-gold convertibility, was approximately $800 billion. Last year, the annual increase in M3 was more than *$800 billion, bringing the total US money supply to $10.2 trillion. In other words, the US now has annual increases in the money supply equal to the entire money supply of 34 years ago. If this continues, the result will be hyperinflation and, eventually, a currency collapse. Meanwhile, the rising price of gold is acting as a leading indicator for troubled times ahead, signaling a growing non-confidence vote in a government's monetary policy.

Loss of Purchasing Power

An increasing money supply leads to the steady erosion of purchasing power. Based on published CPI figures, both the Canadian and the US dollar have lost about 83% of their purchasing power since 1970.

To appreciate how precious metals preserve purchasing power against inflation, consider that in 1971 a compact Chrysler cost about $2,300; today, the price is $14,000. A starter home was $24,000; today, it is $236,000. The Dow Jones stood at 890, compared to 10,500 at year-end 2005. As for gold, it was $35 per ounce, compared to $513 at year-end 2005.

If you convert these dollar prices to ounces of gold, you see that they have actually declined. For instance, the car that used to cost 66 ounces of gold in 1971 now costs only 30 ounces. The house that cost 703 ounces of gold now costs 431. In fact, you can buy almost twice as many cars or houses with your gold. Even investing in equities costs less today in gold terms. In 1971 the Dow Jones was 25 ounces of gold, while today it is 20.

Fat Tail Events

The third hedging benefit provided by precious metals is protection against a sudden, unexpected financial crisis – a fat tail event. Examples of fat tail events are war, terrorism, natural disasters, health pandemics and systemic financial risks such as a derivatives accident, bankruptcy of a major bank or a major corporation, defaults on bonds, derivatives contracts, insurance contracts and disruption of oil supply. When any of these occur, traditional financial assets often suffer while the price of precious metals tends to rise dramatically. While most investors regard insuring their homes an absolute necessity, their investment portfolios are often completely exposed and "uninsured" – lacking any precious metals allocation.

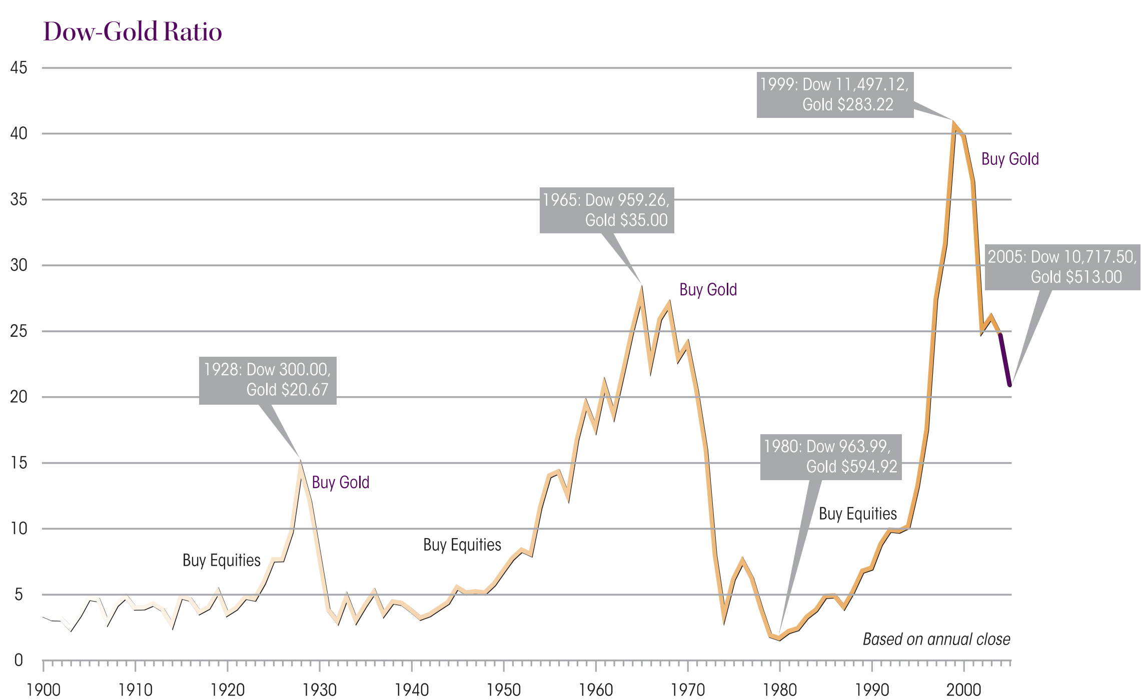
TACTICAL ASSET ALLOCATION

Although using strategic allocation or a hedging strategy is enough to justify a 7 to 15 percent allocation to bullion, tactical strategy justifies much higher allocations. Broadly speaking, tactical asset allocation means actively seeking out strategies that will enhance portfolio performance by shifting the asset mix in a portfolio in response to the changing patterns of return and risk. With rising oil prices and increasing inflation, precious metals are likely to outperform traditional financial assets in the years ahead. Here are some of the reasons why precious metals are a good tactical asset strategy today.

Precious Metals Bull Market

The bull market in precious metals began in 2002, and entered its second phase in the summer of 2005. Prior to that, the rising gold price simply reflected the US dollar decline. Since then, however, the prices of gold, silver and platinum have been increasing in most currencies, including euros, Swiss francs, British pounds and Japanese yen. From a tactical point of view, portfolios should now be rebalanced so they are overweight precious metals in order to take advantage of current market trends.

The main indicator confirming this trend is the Dow:Gold ratio, a factor that indicates when to be overweight precious metals and hard assets, and when to be overweight financial assets. In 1999 the Dow:Gold ratio peaked at over 40, before declining to its current level of about 20. When the ratio is rising, as it did from 1945 to 1960



and again from 1980 to 1999, it is prudent to be more heavily allocated to financial assets with lower allocations to precious metals and hard assets. When the ratio is declining, as it is today, the opposite investment strategy applies. In our current economic climate, allocations to financial assets should be reduced, while allocations to precious metals and hard assets should be increased in order to maximize returns.

Some investors think the precious metals bull market is well advanced, and they have missed the boat. However, when we compare the current market to the bull market of the 1970s, it becomes apparent that we are still in the early stages of what could be a 20-year bull market.

Determining whether the trend will continue is as simple as looking at the key drivers for precious metals price increases. While commodity-based supply/demand fundamentals are certainly a factor, there are more: increasing concerns about the weakening US dollar, burgeoning US debt and rising oil prices. Since the US dollar acts as the world's reserve currency, its decline will ultimately have a global effect.

US Economic Vulnerabilities

As the world's reserve currency, the health of the US dollar impacts all economies, currencies and investments. The US economy is currently propped up by a mountain of debt. In 2005, the federal debt increased by $571 billion, reaching the congressionally set debt ceiling of $8.2 trillion. If the present value of unfunded Social Security and Medicare obligations is taken into account, it now stands at $49.4 trillion - $160,000 for each American.

The ballooning trade deficit has increased annually since 1975. Today it is approximately $781 billion, meaning the US must borrow over $2 billion each day to fund its consumption of imported goods and commodities. The US now absorbs over 80% of the entire world's savings in order to maintain its consumption. Since the US has outsourced much of its manufacturing and imports the majority of its oil, even a major decline in the value of the dollar will not reverse this growing trend. The US trade deficit has become systemic.

The US current account deficit is now approaching 7% of GDP. Economists believe that 5% is the critical number because, historically speaking, a current account deficit in excess of 5% has resulted in a currency crisis. During a currency crisis, demand for alternative currencies, including gold, silver and platinum, increases dramatically.

Total US debt as a ratio of GDP has surpassed the previous high set in 1933, when it stood at approximately 255% of GDP. Today, the number is well over 300% of GDP. The fact that foreigners hold a growing percentage of this makes matters worse; almost 50% of US government Treasury bills and bonds are held by foreign entities. If foreign investors, tired of funding US budget and trade deficits, lose confidence in the dollar, a massive exodus from both it and from US financial assets will ensue. The result would be a US financial disaster. Since the US dollar is widely viewed as the last stable currency, much of the money fleeing out of it will have nowhere to go but precious metals. A number of central banks have already announced they intend to diversify out of US dollars. Since aboveground global supplies of precious metals are currently valued at less than $2 trillion, and global financial assets exceed $70 trillion, the prices of gold, silver and platinum will increase dramatically if there is a shift in sentiment and demand explodes. Considering that precious metals are already rising against all currencies, this trend may have already started.

Gold/Oil Relationship

We are at a juncture where oil production is about to decline just as demand, particularly from China and India, is about to explode. Numerous studies suggest, and many experts agree, that the world is close to reaching peak oil production. The result of increasing demand coupled with dwindling supply will be an upward-spiraling oil price that drives precious metals prices higher while negatively impacting financial assets and global economies.

Throughout history there has been a positive correlation between the prices of precious metals and oil. As the price of oil increases, so does that of gold. As gold rises, silver and platinum follow. Traditionally, oil trades at about 15 barrels per ounce of gold. Today, oil trades at about 8 barrels per ounce. Either gold is undervalued, or oil must decrease in price to about $30 per barrel, an unlikely event. At the normal 15-to-1 ratio, gold today should be priced at over $1,000 per ounce.

Bullion vs. Mining Stocks

Hedging and tactical allocation to precious metals can only be achieved through investment in bullion itself, and not from mining company stocks. While stocks can be good trading opportunities during bull markets, they have a completely different risk/reward relationship than bullion. During the stock market crash of 1987, for example, mining stocks declined by a greater amount than equities in general, while the price of gold increased. Mining companies are exposed to many operational risks and can decline to zero; bullion cannot. During a currency crisis, bullion outperforms mining stocks because global investors as a whole will seek to hold bullion rather than invest in paper. While mining stocks are popular in North America, people in South-East Asia, South America, Europe and other parts of the world that have already experienced a currency crisis would rather have gold, silver and platinum bullion than anything else.

Bullion Investments

One of the most important things to consider when investing in bullion is whether it is fully allocated, segregated and insured. Unless this is the case, there may be multiple claims against the bullion, or it may not even exist. Many precious metals investments are nothing more than promises to deliver bullion at some future date. Bullion investments must precisely track the price of bullion, and not be influenced by the equity markets. If the form of investment is dependent on a counter-party and the counter-party defaults, all the benefits of holding precious metals could be lost at precisely the time when they are needed the most.

In summary, a portfolio allocation of 7 to 15 percent in precious metals is justified simply from the strategic and hedging points of view. If you take into account current vulnerabilities in the global financial system and the implications of peak oil, a much higher allocation is appropriate. The Dow:Gold ratio is an accurate indicator of the trend toward precious metals, and clearly confirms the need to be overweight in that sector at this time.

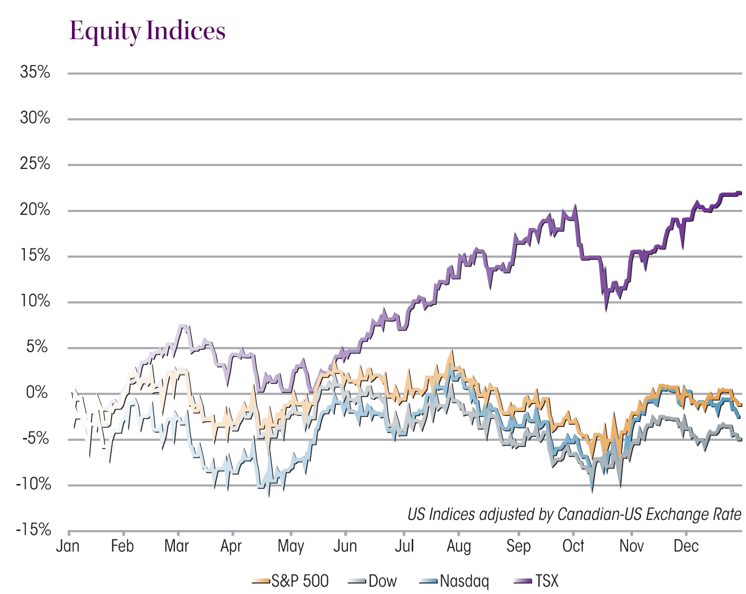
*All dollar amounts expressed in US currency unless otherwise indicated.

“I think we are skating on increasingly thin ice. On the present trajectory, the deficits and imbalances will increase. At some point, the sense of confidence in capital markets that today so benignly supports the flow of funds to the United States and the growing world economy could fade. Then some event, or combination of events, could come along to disturb markets, with damaging volatility in both exchange markets and interest rates. We had a taste of that in the stagflation of the 1970s — a volatile and depressed dollar, inflationary pressures, a sudden increase in interest rates and a couple of big recessions.”

Paul Volcker – Former Fed Chairman

2005 – Year In Review

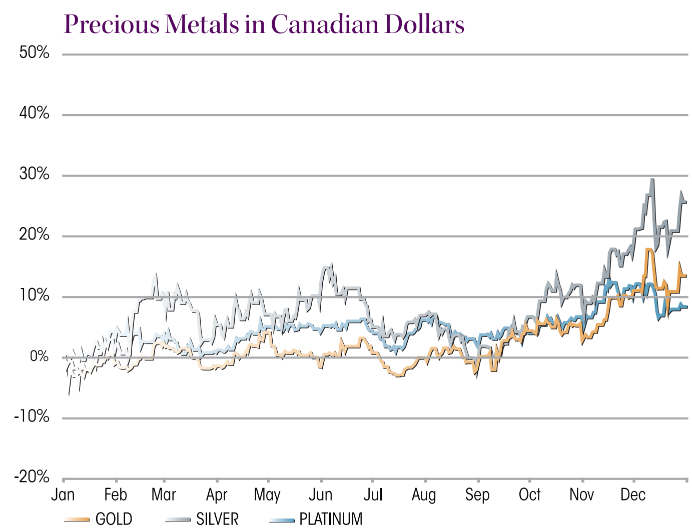
While a number of negative financial records were set in 2004, the financial imbalances and vulnerabilities grew worse in 2005. The outlook for the US economy and the world's reserve currency, the US dollar, deteriorated as the US twin deficits set new highs. In Alan Greenspan's final year as chairman of the Federal Reserve, the US federal debt increased by *$571 billion, hitting its debt ceiling of $8.2 trillion. US consumers added $1.3 trillion in additional debt in 2005, while the savings rate dipped into negative territory. The trade deficit rose 17.5% to $725 billion, and the current account deficit rose 17.3% to $781 billion. Unfunded Social Security obligations rose by $3.5 trillion to $49.4 trillion – over $160,000 for each American. As baby boomers start retiring in 2008, the US will be forced to monetize its Social Security and Medicare obligations by printing money at hyperinflationary levels.

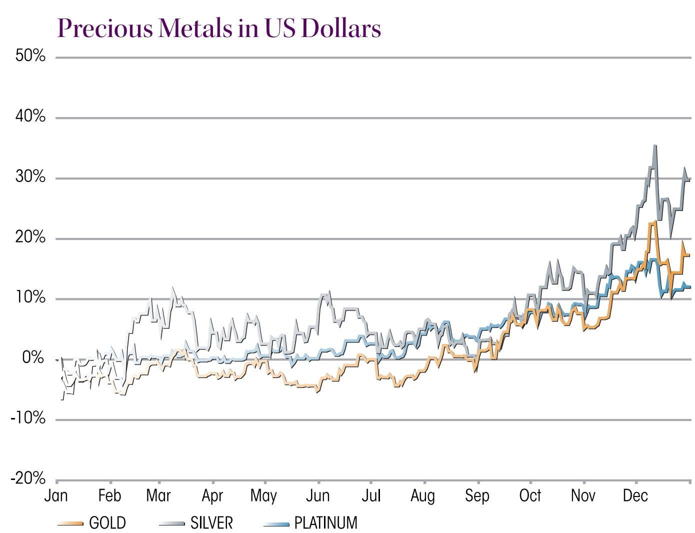


The year 2006 marked the end of Alan Greenspan's tenure at the Fed's helm. Since his appointment, Greenspan presided over the greatest monetary expansion in the history of the US. When he took office in 1987, the money supply stood at $3.6 trillion. At the end of his tenure on January 31, 2006, it had climbed to $10.2 trillion, with $500 billion created since July 2005. He managed to create an astonishing $6.6 trillion during his 18-year term – more than twice the amount of all the previous Fed chairmen combined.

Greenspan has taken steps to protect his reputation, however; he is on record warning about the possible repercussions of fiscal imbalances created through the expansion of the money supply (see "Greenspan Warnings", www.bmsinc.ca/gw). Freed by retirement from the need to be politically correct, he will undoubtedly say, "I told you so".

While inflation in 2005 seemed benign at a reported rate of 3.4% in the US and 2.2% in Canada, anyone who buys food, gasoline, professional services or insurance might disagree. In fact, if US inflation figures were still calculated using the formula in place prior to 1993, the rate would be closer to 7%. This 3% differential would render GDP growth negative. Other indicators confirm that inflation is much higher than reported.





Platinum, which is considered a leading indicator of inflation, rose by 14.5% in US dollars in 2005. Oil rose by 40.5% and natural gas by 82.6%. The Producer Price Index increased by 7.4% and the CRB commodity index rose by 16.9 %. The true indicator of inflation, however, is an increasing money supply. In 2005, the broad-based money supply (M3) rose 8.1% in the US, and 6.9% in Canada.

Some of this money found its way into the housing market, which posted a 15% gain over the previous year. While US equities appeared to make gains, they generally lagged against gold. The Dow:Gold ratio declined during the year, from 24.8 to 20.5. Even though the Dow appeared to have almost recovered its former peak of 11,723 in 2000, it remains down over 50% in gold terms.

Although the US Dollar Index posted a rally from 81 in December 2004 to 89 in December 2005, the dollar lost 17% against gold. In fact, many currencies lost value against gold in 2005: the euro lost 26%, the British pound lost 24% and the Japanese yen lost 27%. While Canada's dollar posted a gain of 5% against the US dollar, it lost 13% against gold.

Throughout 2005, oil gained against gold. The average ratio of oil to gold has been 15 barrels of oil per ounce of gold. This relationship hit an all-time low of 6.2:1 on August 30, 2005, when oil peaked at almost $70 per barrel. Since there are no fundamental reasons for the price of oil to drop below $35, the level required to return to traditional norms, it is far more likely that the gold price will rise to restore the historic mean. At the normal 15:1 ratio, gold today should be over $1,000 per ounce.

While gold and silver are still a long way from matching the highs set in 1980, they did post impressive gains. Gold set a new 26-year high of $536 per ounce, and silver set a new 22-year high of $9 per ounce. Platinum ended the year at $965 per ounce, just $105 short of its 1980 all-time high of $1,070. Today, in inflation-adjusted terms, gold's 1980 high of $850 translates to $2,200; silver's 1980 high of $50 translates to $129; and platinum's 1980 high of $1,070 translates to $2,770. Today, all three precious metals represent a tremendous bargain.

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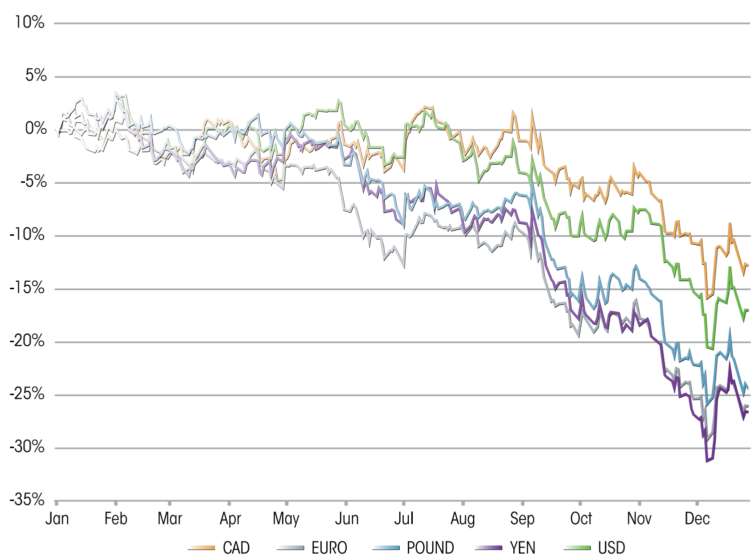
Currencies Valued in Gold



"Real unemployment right now – figured the way that the average person thinks of unemployment, meaning figured the way it was estimated back during the Great Depression – is running about 12%. Real CPI right now is running at about 8%. And the real GDP probably is in contraction."

John Williams – Publisher – Gillespie Research

2006 Outlook

As we look forward into 2006, the list of financial vulnerabilities and imbalances that could have a major impact on the global economy is long and troubling. Hopefully the year will progress without any of these coming to pass and causing chaos in our monetary systems. However, wishful thinking is a poor strategy when it comes to investing, particularly in troubled times. Instead, we must take a defensive position, protecting our assets against loss rather than taking unnecessary risks to achieve growth. Now is not the time to be without portfolio insurance; fortunately, precious metals have a long history of preserving wealth during turbulent times.

ECONOMIC VULNERABILITIES

1. Geopolitical risks
   a. *Iraq*
   b. *Iran*
   c. *Syria*
   d. *Terrorism*
   e. *War*
2. Peak oil
3. Flu pandemic
4. Derivatives accident
5. Bursting housing bubble

IMBALANCES

1. US financials
   a. *national debt over *$8 trillion, or $25,000 per person*
   b. *total debt is now $49 trillion, or $160,000 per person*
2. Inflating money supply
   a. *M3 over $10 trillion, growing at 8%, 11% in last 3 months*
3. Trade deficit growing to $700 billion annually
4. Foreign ownership of $11 trillion in US assets
5. US liabilities to foreigners of $5.3 trillion
6. Debt to GDP at record levels
7. Negative savings rate

Many financial advisors and investors are complacent and unconcerned about today's financial environment, since reported economic statistics indicate that everything is fine and there is nothing to worry about. On closer examination, however, we find that published official statistics are, at the very least, misleading. John Williams of Gillespie Research publishes a newsletter that compares the primary economic indicators using previous methodologies and formulas to the official statistics.

The Consumer Price Index (CPI) is the first place most people start when looking for a measure of inflation. Prior to the Clinton administration, the CPI was calculated on a fixed basket of goods and services. In 1993, however, a number of hedonic adjustments and substitutions were introduced. Recently, rents were substituted for house prices and used cars substituted for new cars. These adjustments alone cause the CPI to be understated as low-cost financing for homes depressed rental rates, while rebates and zero-interest financing depressed the values of new cars. As a result, the CPI today is reported as 3.4%. However, the media typically reports only the Core Rate, a rate that excludes food and energy, which comes in at a benign 2.8%. If the CPI is calculated using the pre-Clinton formula, it would currently be at 7%. These changes were made to keep Social security payments lower. If the previous methodology was used, Social Security payments would be 43% higher, resulting in an even higher federal budget deficit.

The federal budget deficit for 2005 was stated as being $319 billion. However, when the difference between the total federal debt in 2004 and 2005 is calculated, the increase alone is $571 billion – nearly twice as high as the reported deficit. When the 2005 deficit is calculated according to Generally Accepted Accounting Principles (GAAP), taking into account unfunded Social Security and Medicare obligations, the deficit grows to $3.7 trillion for 2005. When you consider that total tax receipts for the year were $2.3 trillion, and the increase in the GDP was $399 billion, the magnitude of this growing imbalance becomes evident. Think about that for a minute – federal government debt increasing by almost 10 times the increase in GDP of the entire nation.

Modifications are also made to GDP and GNP statistics, and both are adjusted in accordance with the understated CPI. As a result, reported GDP growth of 4.5% is likely overstated by at least 3%. Taking into account that a number of ratios, such as Total Debt:GDP and Federal Deficit:GDP are at worrisome levels using the official numbers, it is hard to comprehend how dismal they would be if accurate numbers were used.

While these imbalances and vulnerabilities may not create any financial disasters in 2006, it is a virtual certainty that we will experience the negative effects of monetary inflation this year. Most countries are increasing money supply at near double-digit rates; the US hit an annualized rate of 11% in the last quarter of 2005, and until recently Canada's rate of increase surpassed it. Most observers expect the Fed will likely accelerate the rate of increase in 2006 and beyond. Meanwhile, it has announced that after March 2006, M3 figures will no longer be published. In the past, during periods of high inflation, precious metals have outperformed all other asset classes.

> "Like gold, US Dollars have value only to the extent that they are strictly limited in supply. But the US government has a technology called the printing press, that allows us to print as many dollars as it wishes at essentially no cost."
>
> Ben Bernanke – Fed Chairman

For the time being, many investors seem content to hold paper assets denominated in depreciating currencies. These paper-based assets and currencies can be increased without practical limits, while precious metals supplies and availability are finite. Gold, silver and platinum have experienced supply deficits for nearly two decades, with imbalances made up from aboveground stocks. Today, there is a minimal amount of aboveground silver and platinum bullion. Although aboveground gold is estimated at 153,000 tonnes, 96,200 tonnes is in the form of jewelry, religious artifacts, art and industrial products, and would not be readily converted into bullion. Gold in bullion form is estimated at 53,200 tonnes; 29,100 tonnes is held by central banks, and the balance is held privately. Considering that most privately held bullion is in the hands of very wealthy individuals, there may be less than $250 billion worth available for sale. If China, Japan, Korea, India and Russia rebalanced their gold reserves, it would take 22,000 tonnes in order to meet the 15% bullion reserve recommended by the European Central Bank. Russia has announced that it intends to double its reserves to 10%, requiring the purchase of 1,000 tonnes of bullion, and China has announced that it intends to purchase 2,000 tonnes. As concern about the stability of paper currencies rises, and the eroding effect of inflation takes hold, a greater and greater proportion of the world's $70 trillion in financial assets will attempt to move into a precious metals market that comprises less than $1 trillion. As this happens, prices for precious metals will experience major upward adjustments.

While many investors have structured their portfolios to maximize returns, today it may be more prudent to protect against losses. The importance of avoiding losses becomes evident when you consider that a 50% loss will require a 100% gain in order to break even.

*All dollar amounts expressed in US currency unless otherwise indicated.

Financial Statements

FPO

Auditor's Report

To the Unitholders of **The Millennium BullionFund**

We have audited the statement of investment portfolio of **The Millennium BullionFund** as at December 31, 2005, and the statements of net assets as at December 31, 2005 and 2004, and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investments of the Fund as at December 31, 2005, and its net assets as at December 31, 2005 and 2004, and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada,
March 18, 2006

STATEMENTS OF NET ASSETS

As at December 31	2005 $	2004 $
ASSETS		
Gold, silver and platinum bullion, at market value [average cost: $36,752,365; 2004 - $27,577,370]	41,863,331	27,582,450
Cash	876,881	-
Miscellaneous receivable	118	-
Subscriptions receivable	52,090	74,598
	42,792,420	27,657,048
LIABILITIES		
Bank indebtedness	-	3,970
Management fees payable	-	90,649
Accounts payable and accrued liabilities	79,970	91,259
Redemptions payable	103,332	17,449
	183,302	203,327
Net assets represented by unitholders' equity	42,609,118	27,453,721
Class A	33,855,256	23,114,558
Class F	5,949,475	4,339,163
Class G05	262,709	-
Class G09	371,382	-
Class G11	2,170,296	-
	42,609,118	27,453,721
Net asset value per unit		
Class A	6.59	5.86
Class F	6.70	5.90
Class G05	7.02	
Class G09	6.61	
Class G11	6.60	

See accompanying notes

On behalf of the Board of Directors of Bullion Management Services Inc.,
Trustee and Manager of The Millennium BullionFund:

Nick Barisheff,
Director

Larry Gamble,
Director

STATEMENTS OF OPERATIONS

Years ended December 31	2005 $	2004 $
INVESTMENT INCOME		
Early redemption fees	11,553	2,782
Interest	1,692	447
	13,245	3,229
EXPENSES		
Management fees *[note 4]*	644,068	555,812
Securityholder reporting costs	191,134	191,595
Bullion storage fees	93,268	83,132
Goods and Services Tax	58,350	53,322
Legal fees	58,139	69,836
Other administrative expenses	41,505	24,461
Audit fees	34,904	65,395
Interest and bank charges	776	234
	1,122,144	1,043,787
Expenses absorbed by Manager	175,177	180,613
	946,967	863,174
Net investment loss for the year	(933,722)	(859,945)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain on investments	14,180	-
Net realized gain (loss) on foreign exchange	1,842	(9,620)
Change in unrealized appreciation (depreciation) of investments	5,105,886	(1,077,557)
Net gain (loss) on investments	5,121,908	(1,087,177)
Increase (decrease) in net assets from operations	4,188,186	(1,947,122)
Increase (decrease) in net assets from operations per class		
Class A	3,320,061	1,876,388
Class F	687,678	(70,734)
Class G05	25,331	-
Class G09	18,845	-
Class G11	136,271	-
Increase (decrease) in net assets from operations per unit		
Class A	0.79	(0.45)
Class F	0.83	(0.20)
Class G05	0.70	-
Class G09	0.81	-
Class G11	0.52	-

See accompanying notes

STATEMENTS OF CHANGES IN NET ASSETS

As at December 31

	Class A		Class F	
	2005	2004	2005	2004
	$	$	$	$
Net assets, beginning of year	**23,114,558**	16,571,267	**4,339,163**	-
Increase (decrease) in net assets from operations	**3,320,061**	(1,876,388)	**687,678**	(70,734)
Capital transactions				
Proceeds from issuance of units	**14,947,676**	17,309,142	**1,475,156**	4,411,897
Redemption of units	**(7,527,039)**	(8,889,463)	**(552,522)**	(2,000)
	7,420,637	8,419,679	**922,634**	4,409,897
Net assets, end of year	**33,855,256**	23,114,558	**5,949,475**	4,339,163

	Class G05		Class G09	
	2005	2004	2005	2004
	$	$	$	$
Net assets, beginning of year	-	-	-	-
Increase (decrease) in net assets from operations	**25,331**	-	**18,845**	-
Capital transactions				
Proceeds from issuance of units	**237,708**	-	**352,537**	-
Redemption of units	**(330)**	-	-	-
	237,378	-	**352,537**	-
Net assets, end of year	**262,709**	-	**371,382**	-

	Class G11		Total	
	2005	2004	2005	2004
	$	$	$	$
Net assets, beginning of year	-	-	**27,453,721**	16,571,267
Increase (decrease) in net assets from operations	**136,271**	-	**4,188,186**	(1,947,122)
Capital transactions				
Proceeds from issuance of units	**2,034,025**	-	**19,047,102**	21,721,039
Redemption of units	-	-	**(8,079,891)**	(8,891,463)
	2,034,025	-	**10,967,211**	12,829,576
Net assets, end of year	**2,170,296**	-	**42,609,118**	27,453,721

See accompanying notes

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31	Fine ounces	Average Cost $	Market Value $	Total %
Gold, silver and platinum bullion				
Gold bullion	22,795.106	12,240,798	13,660,288	32.63
Silver bullion	1,489,245.236	12,260,450	15,361,294	36.69
Platinum bullion	11,403.713	12,251,117	12,841,749	30.68
Total Investment portfolio		36,752,365	41,863,331	100.00

See accompanying notes

Notes to Financial Statements

December 31, 2005

1. FORMATION OF THE FUND

The Millennium BullionFund [the "Fund"] was established under the laws of Ontario by a master Declaration of Trust and Regulation each dated January 15, 2002, as amended. Bullion Management Services Inc. is the Trustee and Manager of the Fund. The Fund currently offers 5 classes of units. These financial statements pertain to Class A, Class F, Class G05, Class G09 and Class G11 units.

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:

Valuation of investments

Gold, silver and platinum bullion are valued on the London PM fixed price with the difference between this amount and the average cost 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 valuation date.

Investment transactions, income and expense recognition

Bullion transactions are recorded on a trade date basis.

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

The realized gain or loss on sale of investments is calculated with reference to the average cost of the related investments.

The Fund follows the daily accrual method of recording investment income and expenses. Expenses specifically related to each class of units are charged directly to the class. Other expenses are allocated proportionately to each class based on the average net asset value ["NAV"] of each class.

Income, realized gain (loss) and unrealized gain (loss) are allocated among the classes on a pro-rata basis.

Calculation of Net Asset Value per unit

The NAV of each class of units of the Fund is calculated in Canadian dollars at 4:00 pm (Eastern Time) on each day on which The Commodities Mercantile Exchange, a division of the New York Mercantile Exchange, and The Toronto Stock Exchange are open for trading.

A separate NAV is calculated for each class of units of the Fund by taking the class's proportionate share of the Fund's common assets less that class's proportionate share of the Fund's common liabilities and deducting from this amount all liabilities that relate solely to the 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 valuation date.

Income taxes

The net taxable investment income and the net realized capital gains during the year are distributed to the unitholders such that the 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

Increase (decrease) in net assets from operations per unit in the Statement of Operations represents the net assets from operations attributable to a class of units for the year divided by the weighted average number of units of that class outstanding during the year.

3. UNITHOLDERS' EQUITY

Unit transactions during the years ended December 31 were as follows:

	Class A 2005	2004	Class F 2005	2004
Balance, beginning of year	**3,947,855**	2,717,998	**735,716**	-
Issued	**2,433,823**	2,667,602	**237,785**	736,042
Redeemed	**(1,242,518)**	(1,437,745)	**(85,671)**	(326)
Balance, end of year	**5,139,160**	3,947,855	**887,830**	735,716

	Class G05 2005	2004	Class G09 2005	2004
Balance, beginning of year	**-**	-	**-**	-
Issued	**37,489**	-	**56,150**	-
Redeemed	**(53)**	-	**-**	-
Balance, end of year	**37,436**	-	**56,150**	-

	Class G11 2005	2004
Balance, beginning of year	**-**	-
Issued	**328,865**	-
Redeemed	**-**	-
Balance, end of year	**328,865**	-

4. MANAGEMENT FEES AND SALES COMMISSION

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 of 2.25% for Class A, 1.25% for Class F, 1.75% for Class G5, 1.25% for Class G9 and 1.00% for Class G11, payable monthly in arrears and based on the average daily NAV of the Fund.

The Manager may, from time to time, in its sole discretion, absorb operating expenses that would otherwise be charged to the Fund. The Manager may cease to absorb these operating expenses without further notice.

A sales commission may be charged by a registered dealer or representative at the time investors buy Class A units or Class G units of the Fund. The maximum amount of the sales commission is 5.26% of the net amount invested. The sales commission is negotiable. No sales commission is charged for the other class of units of the Fund.

5. INCOME TAX LOSS CARRYFORWARDS

The Fund has non-capital loss carryforwards of approximately $2,181,000 available to offset future years' taxable income with $33,000 expiring in 2009, $365,000 in 2010, $857,000 in 2014 and $926,000 in 2015. The Fund also has capital losses of $3,964 which may be carried forward indefinitely and applied against capital gains realized in a future period.

6. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 financial statements.

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