2007
ANNUAL REPORT

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 Group Inc.* (BMG), related companies and the BMG BullionFund (formerly The Millenium BullionFund), 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.

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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 gryphons "have hoards of fabulous treasure, which they guard endlessly."

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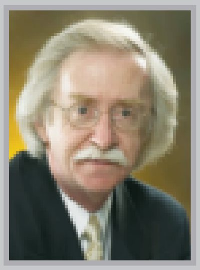
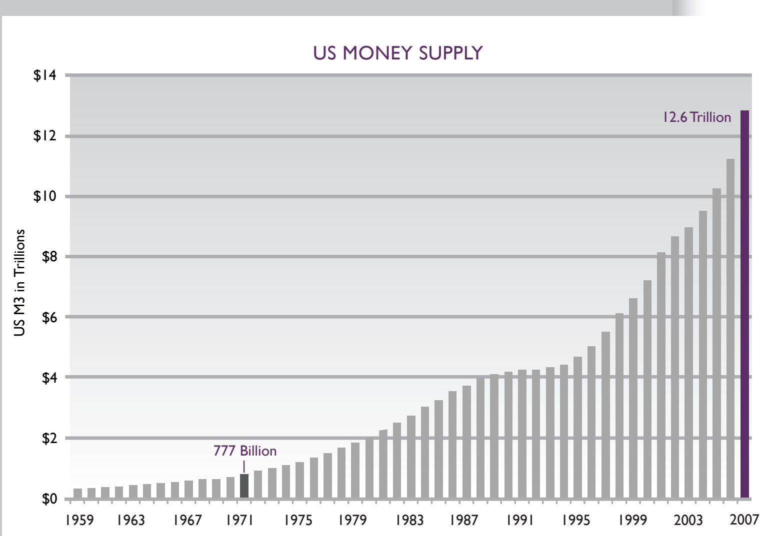
Known for centuries as the guardian of gold and a symbol of strength and vigilance, today the gryphon embodies the spirit of *Bullion Management Group Inc*.

CONVERGING FORCES DESCEND ON INVESTORS



For investors, these are extraordinary times. Systemic cracks have appeared in the banking system, making us wonder if the financial markets and the economy are facing recession, depression, stagflation, or possibly something we've never experienced before.

The rising gold price is like the proverbial canary in a coalmine, singing out a warning as loudly as it can. Unfortunately, as far as gold is concerned, few are bothering to listen. The warning signs are there, but most investors are bewildered by the conflicting data.



In times of high inflation, economic risk and market uncertainty, like today, financial assets such as stocks and bonds place a distant second to hard assets like gold, silver and platinum. Yet even at today's high valuations, few investors realize that their stocks and bonds have actually declined when adjusted for real inflation. Underlying this inflationary pressure is the explosive growth of the money supply.

Since 1971, when President Richard Nixon eliminated gold convertibility for the US dollar, there has been no practical limit on the amount of money that the US Federal Reserve could create. As a result, money supply has been growing at increasingly higher rates in most countries. In the US, the annual increases in the money supply have surpassed the total amount of money in 1971.

Money supply in most countries is increasing by double-digit amounts, with the world's reserve currency, the US dollar, expanding at nearly 16%. Over the past year the money supply in Canada (measured by M3) has increased by 8%, even though GDP growth was barely half that.

Much of this easy money has gone into the equity markets and real estate, which is why inflationary bubbles formed in those asset classes.

Under stable conditions money supply should only expand as fast as, but not faster than, GDP growth. Today, however, the credit crisis is forcing the Fed to increase the money supply at a faster rate. Fed Chairman Ben Bernanke is on record as saying the Fed will provide liquidity in unlimited amounts in order to maintain bank solvency and prevent a systemic financial crisis. The inflationary implications of this policy are clear.

As if this wasn't enough, the US government will be forced to monetize its unfunded liabilities for Social Security and Medicare. Over the next 20 years, 78 million Americans will become pensioners and medical dependents of the US taxpayer. They are owed a total of $54 trillion, the equivalent of $445,000 per US household. The government can fund this vast sum in one of three ways:

1. ***increase taxes***
2. ***restructure their promises***
3. ***issue more money***

As options one and two won't happen for political reasons, the only viable alternative is option three: issue more money. This is the easiest and most likely solution and will result in accelerating inflation.

The only real long-term protection against all these inflationary policies is precious metals bullion.

Most investors think inflation is a rise in the price of goods and services as measured by the Consumer Price Index (CPI). They are confusing cause with effect: **The cause of inflation is an increase in the money supply**. The subsequent effect is an increase in prices.

Wainwright Economics has conducted studies that show gold, silver and platinum are the best leading indicators of inflation over all other commodities, with platinum taking top honours. Given that, in 2007, gold increased by 31% and platinum increased by 38% (and has now surpassed its 1980 all-time high by nearly 44%), the outlook for real inflation indicates dramatic increases.

It's not only precious metals that are pointing to much higher inflation rates.

The official US CPI has been relatively benign for several years. But lately, it has risen from an annualized rate of 2.5% to 4.1% for 2007. Yet even with this recent increase, the CPI understates and lags real inflation.

Investors have been relatively unconcerned about inflation because politicians and central bankers have done an excellent job of persuading us that inflation is under control and represents no threat. The US 'core' inflation rate (excluding food and energy) is reported to be around 2%. It certainly sounds good, but it doesn't reflect reality.

Financial media generally use the Core Consumer Price Index as a measure of inflation, but it is only useful for people that don't eat, or use energy, because food and oil are excluded from the calculation.

For quite some time, the Fed and governments around the world have been concealing the effects of issuing all this money. That is why they revise or "adjust" the CPI and Producer Price Index (PPI) statistics. In fact, the methodology used to calculate the CPI was

Over the past year the **money supply in Canada has increased by 8%**, even though GDP growth was barely half that.

changed in the early 1990s by the Clinton administration. Many adjusting factors, such as substitution and hedonic adjustments, were introduced. Recreation of the CPI using the pre-Clinton formula shows that it is currently increasing at an alarming 8%. Meanwhile, in 2007, the PPI increased by 7%, commodities by 17%, and oil by 57%.

Then there is the problem of peak oil. Globally, oil wells are pumping at maximum capacity. Yet the number of barrels of oil per year is close to declining for the very first time, even as demand continues to rise. Oil and gas experts now fear 'peak oil' is coming to fruition. As the price of oil rises it will cause rising prices in virtually all goods and services and will be highly inflationary.

Reserves and refineries have not been replenished or built out for nearly 30 years. Currently, global reserves are being depleted at an annual rate of 6%, while demand is expected to triple over the next 20 years. This means world reserves must be increased by 8% per year simply to maintain the status quo. We are nowhere near achieving that goal, and that can mean only one thing: although oil has shot up to $100 per barrel, there is still a long way for the price to rise.

Oil is important to precious metals investors because over the last 50 years, gold and oil have generally moved together in terms of price, with a positive price correlation of over 80%. During this time, the cost of oil in gold ounces has averaged about 15 barrels per ounce. However, with recent soaring oil prices, the relationship has strayed far from this average. While oil recently set an all-time high of $102 per barrel, gold has not kept pace and the gold/oil ratio fell to an all-time low of 6.5:1. At $102 per barrel oil, the gold price should be in excess of $1,500 per ounce.

One of the great consequences of the central banks' easy credit policies is the massive growth of the global derivatives market. Derivatives – futures, forwards, options and swaps – are in essence bets on the price direction of an underlying stock or bond or other financial asset. Because they derive their value from the underlying asset, they are not an asset class. They were designed several decades ago as a means of reducing risk. Now they are just adding risk.

According to the Bank of International Settlements, the global derivatives market grew by over $100 trillion in the first half of 2007. The global banking system is dwarfed by this $500 trillion juggernaut that, although real, is unregulated and largely unreported. In the 2002 Berkshire Hathaway annual report, Warren Buffett called derivatives "financial weapons of mass destruction, carrying dangers that while now latent are potentially lethal." At that time, total derivatives were only $120 trillion.

When economic conditions deteriorate, investors always turn to real wealth. Real wealth is not based on leverage or IOUs or derived value. Real wealth maintains its

One of the great consequences of the central banks' easy credit policies is the massive growth of the global derivatives market.

purchasing power and does not decline in value because of inflation or stock market collapse. However, the Bank of Canada's inflation calculator shows that a basket of goods costing CDN$100 in 1950 now costs CDN$904, a 90% decline in the currency's value.

Since January 2007, gold has increased by 31%, silver by 14% and platinum by 38% in US dollars. This rise in prices and its implications have been largely misinterpreted and misunderstood. Many investors believe that gold is simply a commodity like copper or lead. Often they attribute the price increases to jewellery demand from China and India. While jewellery is an important demand factor in South East Asia, it is not used simply for adornment as in western countries. Gold and silver are held as a monetary asset that is used to preserve real wealth from generation to generation.

The price increases are not due to simple commodity fundamentals, but to precious metals' role as a timeless store of value. Gold and silver have been used as money for thousands of years, platinum for several hundred years. Today, they are still used as a store of wealth and an inflation hedge by the world's richest families, and held as part of their currency reserves by most central banks. Although there is considerable controversy over central banks leasing gold, current gold holdings are still approximately 855 million ounces. While western central banks have reduced their holdings, other central banks and oil producers have increased their holdings. The fact that most banks and brokerages trade gold at their currency desks rather than their commodities desks also attests to gold's monetary role.

Real wealth management – protecting the purchasing power of your portfolio – must always take into account real inflation. If real inflation is closer to 8% than the official 4%, then long-term bonds are not really a safe investment. Instead, they are a guaranteed loss of purchasing power. And while the equity indexes may make new highs in nominal terms, they will likely experience losses in real terms.

Properly managing and protecting wealth can be achieved by diversifying into asset classes other than stocks and bonds. Few people in the investment community realize that stocks and bonds are not negatively correlated. That is, they do not move in opposite directions.

As Ibbotson Associates pointed out in their landmark 2005 study, precious metals reduce risk and improve returns in your portfolio. They suggest a long-term 7% to 16% allocation to precious metals, regardless of the type of market – bear or bull.

When consumer confidence declines and inflation begins to surge, investing in bullion is the safest and most secure way to preserve your purchasing power. In today's precarious environment, allocations to precious metals should be increased to 20% or more.

* *All amounts expressed in US dollars, unless otherwise noted.*

Nick Barisheff

President and CEO

COMPLACENCY COMES TUMBLING DOWN

As we begin 2007, it seems that most investors are complacent, happy to focus on the new highs in global equity markets and ignoring the longer-term global implications of a continuing weakness in the world's reserve currency, the US dollar.

– The Millennium BullionFund 2006 Annual Report

In many respects, 2007 was a pivotal year. While the markets were up slightly overall, contagion from the subprime fiasco spread, triggering multi-billion dollar write-offs and initiating a dramatic slowdown in consumer and corporate spending in the US. As America's largest trading partner, Canada will not be immune from the impact of the so-called "credit crunch". In last year's annual report we focused on investors' remarkable complacency, an attitude that came back to haunt them.

Our predictions have become a painful reality:

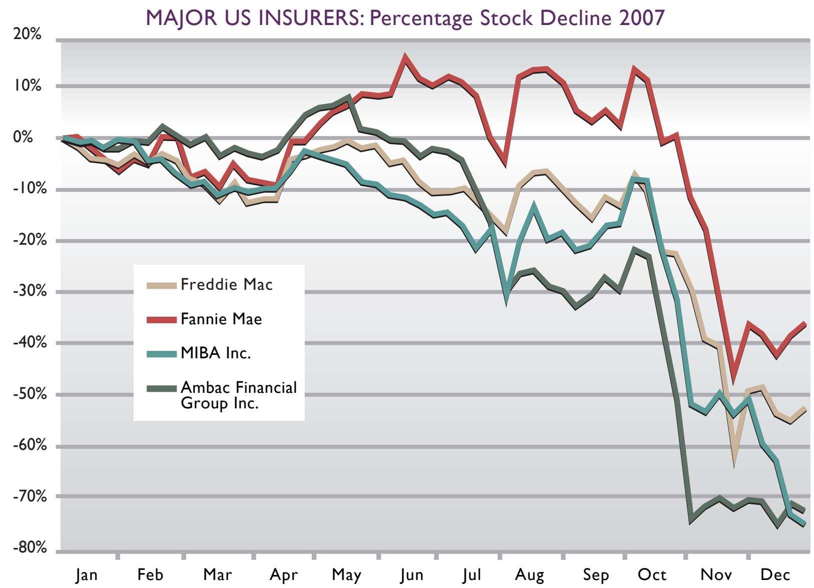
- the US housing bubble burst
- the yen carry trade unwound
- equity markets declined globally
- global money supply continued to grow explosively
- inflation continued to surge

On the positive side – for those properly diversified into precious metals – gold, silver and platinum prices increased in all currencies and the closely watched Dow/Gold ratio marched steadily towards a 1:1 parity.

The Housing Fiasco

The $1.8 trillion subprime credit bubble burst in August 2007. House prices in the US declined, on average, 8.9% during the past year, the first time they have declined since the Great Depression. Declines accelerated at a record pace in the fourth quarter of 2007. According to RealtyTrac, in the fourth quarter of 2007 new foreclosures averaged 2,939 per day, double the rate of the previous year. The continuing collapse of the housing market has not only distressed banks and hedge funds, it has devastated housing loan firms like Countrywide Financial, and is now overwhelming the big monoline insurers (MBIA and Ambac).

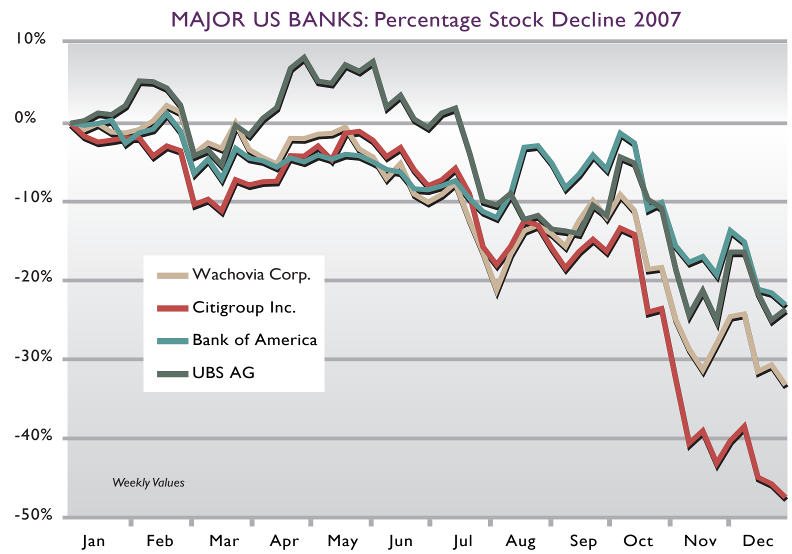
"Of the last ten sharp **housing declines,** eight were **followed by recessions.**"



The domino effect is creating fissures within the financial system itself, and no amount of Federal Reserve easing can cover up the fact that recessions have followed eight out of the last ten sharp housing declines.

US Treasury Secretary Henry Paulson and Fed Chairman Ben Bernanke acted quickly, issuing handouts to consumers, bailouts to corporations and temporary rate freezes to homeowners. If they hadn't, the credit crisis would likely have metastasized into full-blown market panic. Even so, Countrywide Financial lost 80% of its value and was bordering on bankruptcy until Bank of America came to the rescue. Although Bank of America purchased a controlling share in the firm, the discounted price it paid is far higher than the firm's recent market value. The subprime contagion even spread to Europe, as UBS and Deutsche Bank announced losses. Northern Rock, the UK's fifth-largest mortgage issuer, experienced the first run on a western bank since the Great Depression.

The subprime problem continues to reverberate around the world, but hardest hit so far are the US financial markets. Citibank, the world's largest bank, lost 61% of its value in six months and required an $8 billion bailout from the Saudi sovereign wealth fund. Losses and write-downs in Q4 were $20 billion, with estimates of up to $80 billion expected for 2008. Wachovia



lost 33%, Bank of America lost 23%. Many analysts are calling for a prolonged slump through 2010 and even beyond.

Yearning For a Slumping Yen

Last year, we warned that an unwinding of the yen carry trade would have adverse effects on the US dollar and global financial assets. Many years ago, when Japan's economy wilted, their government responded with low rates and high government spending (just as the US government is responding now). This created an opportunity in what is called the "carry trade". Speculators would borrow Japanese yen at low interest rates and then exchange the yen for US dollars, which they reinvested in higher-yielding investments such as US stocks. American stocks rose in value dramatically from 1982 to 2007, while the yen mostly fell in value. So while Japan's low interest rate policies didn't aid their own economy very much, they helped drive up asset prices in the rest of the world.

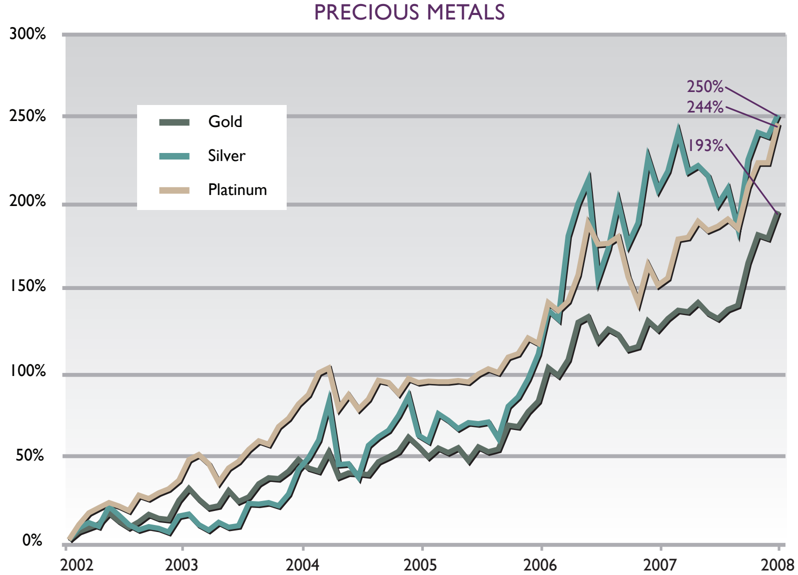
The yen carry trade began to unwind in February 2007, when the yen increased 4.6%. Because the yen was rising and US stocks were falling, the yen carry trade no longer worked. Speculators bailed out. They were forced to sell declining assets in order to pay back the yen loans they were still carrying at higher yen values.

The initial result was a 6% loss in the Dow, and an 3% loss in MSCI World Index. There was another unwinding episode in August, when the yen increased 5.2% against the US dollar, resulting in a 6% loss for the Dow in August and a 7% loss for the MSCI World Index. As we mentioned last year, further unwinding will just exacerbate the problem. Because unwinding forces the yen higher, it further reduces the value of the US dollar and US financial assets.

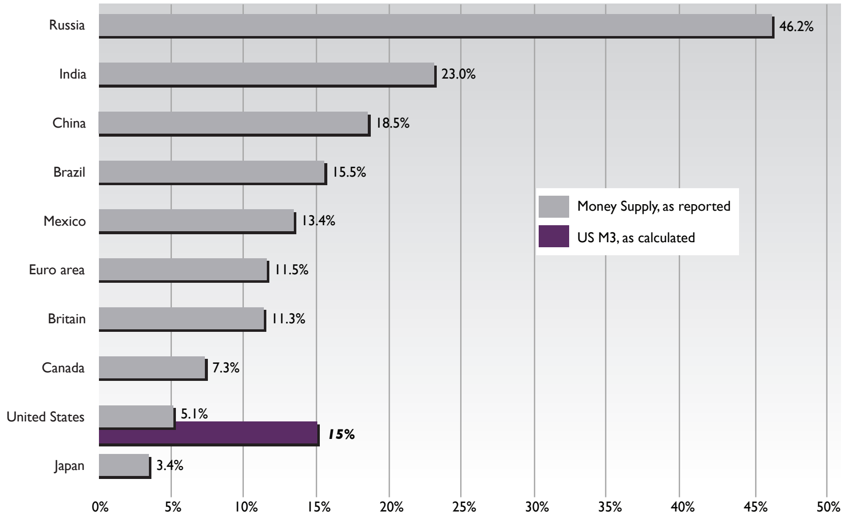
Real Wealth Rising: Gold 31%, Platinum 38%, Silver 14%

Gold increased by 31% in 2007, while platinum increased by 38%. In fact, platinum has now surpassed its 1980 all-time high by nearly 44%, and gold surpassed its previous monthly average high of $675, reached in January 1980, on a total of five months in 2007. Precious metals price increases in 2007 were clear leading indicators that real inflation is growing. Most experts feel we are still in the early stages of a long-term uptrend in precious metals. Mining stock indexes approximately matched the performance of gold bullion in 2007, but we believe bullion is the better long-term investment for reasons stated in the Article *Bullion or Mining Stocks?*, Feb. 12, 2008 issue, *The Bullion Buzz*. www.bmginc.ca/content/view/409/33/

PRECIOUS METALS



INCREASE IN MONEY SUPPLIES



Inflation Continues to Surge

Money supply growth exploded in all major countries in 2007. Nobel Prize-winning economist Milton Friedman noted many times that excessive growth in money supply leads to price inflation. Although governments use the Consumer Price Index (CPI) to measure inflation, many analysts contend that official CPI understates true inflation. While the December 2007 US CPI rose 4.1%, 'real' CPI (calculated by the more accurate pre-1990 formula) rose by double that amount – to an alarming 8%. Platinum, which Wainwright Economics contends is the leading indicator of coming inflation, soared by 38%. Other indications of inflation include crude oil, which increased by 57%, commodities, which rose by 17%, and the Producer Price Index, which spiked by 7%.

The Soaring Loonie

The Canadian dollar increased by 18% against the US dollar in 2007. This reduced precious metals returns for Canadian investors. However, it was much worse for Canadians holding US assets, including equities, bonds and real estate. Although the Dow posted a modest 6% gain for the year, Canadians saw their US equity holdings drop by an average 10% (in real terms) due to currency exchanges losses. An increase in the Canadian dollar may be good for consumers looking for deals on US goods or assets, but it resulted in big losses on US assets held in Canadian portfolios.

Canadians who own real estate in Florida, Arizona or Nevada may have suffered losses in excess of 30%, plus an additional currency exchange loss of 18%. The US Dollar Index declined 8%. The continuing decline in the Index in 2007 reflected the fact that federal government fiscal exposures totalled approximately $53 trillion, up more than $2 trillion from 2006. This translates into a current burden of about $175,000 per person, or approximately $455,000 per household.

The Spiralling Growth of Global Derivatives

The total value of equity derivatives and over-the-counter (OTC) derivatives has risen from $80 trillion in 1998 to an estimated $700 trillion at year-end 2007. According to the Bank for International Settlements, the face value of derivatives based on corporate bonds, currencies, interest rates, commodities and stocks rose to $500 trillion by June 2007, up from $370 trillion just six months previously. To put these numbers in perspective, America's total Gross Domestic Product (GDP) in 2007 was approximately $14 trillion, while global GDP was $50 trillion.

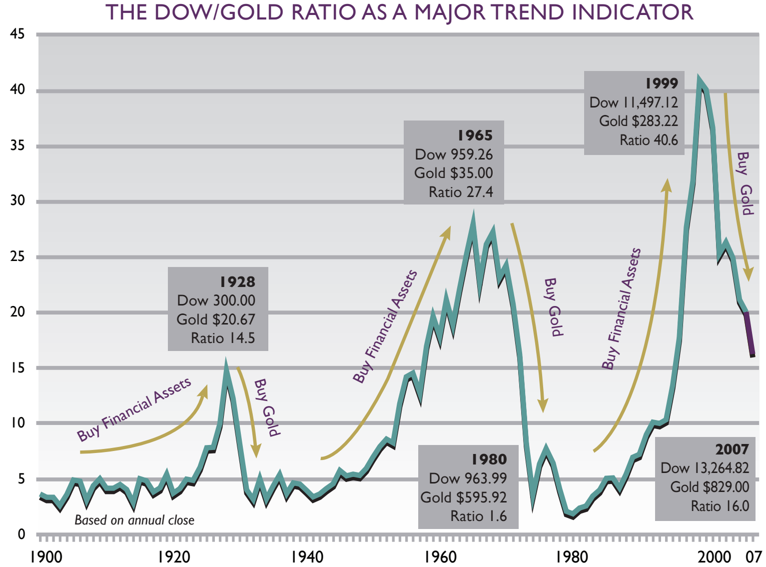
The closely tracked **Dow/Gold Ratio** is reflecting a uniquely cyclical **transfer of wealth.**

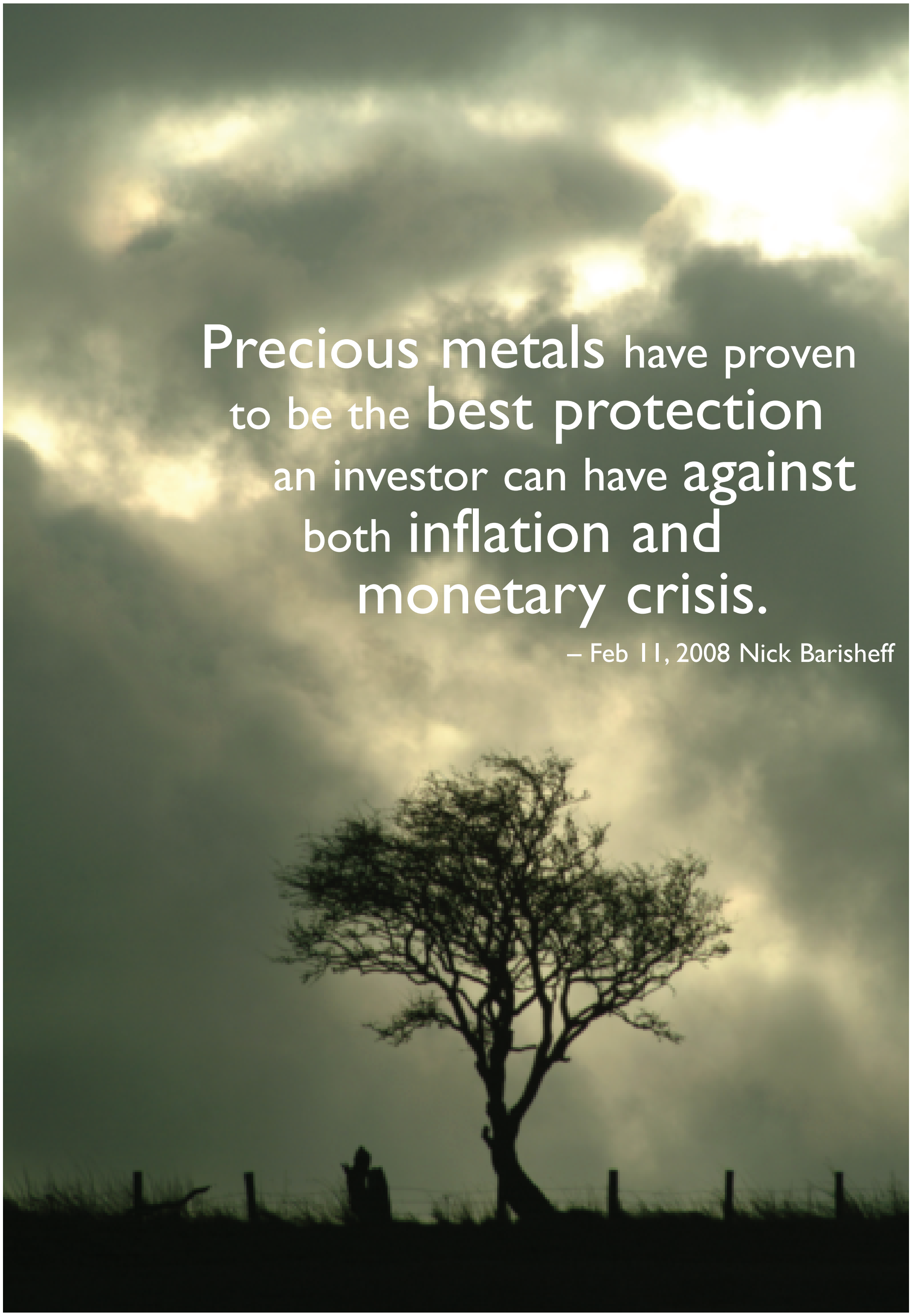
Warren Buffett, Bill Gross and other leading financial figures are unnerved by the explosive global growth in this unregulated and largely unreported market. In Canada, CIBC learned about derivatives and counterparty risk the hard way when AXA, a major insurance company, became insolvent. This resulted in losses of $3.5 billion from subprime loans. Meanwhile, Bank of Montreal experienced $680 million in losses from natural gas derivatives trading. Investors began turning to exotic instruments such as credit default swaps as a way to speculate on a growing risk of defaults amid record US mortgage foreclosures. Credit-default swaps now account for 88% of credit derivatives, and risk exposure through these instruments increased 145% from last year to $721 billion.

The closely tracked Dow/Gold ratio is reflecting a uniquely cyclical transfer of wealth. Financial assets are being repriced downwards, while real wealth in the form of precious metals is being repriced upwards. As the chart below illustrates, the Dow/Gold ratio is continuing its recent decline, this time from 20 in 2006 to 15 at the end of 2007. What does this mean for investors? An investor who purchased the Dow (financial assets) instead of gold (hard assets) would have needed 20 ounces to buy a unit of the Dow and would have received 15 ounces in return. As the Dow/Gold ratio continues to fall, holders of financial assets will witness further declines in their portfolios versus investors in gold and precious metals bullion.

**All amounts expressed in US dollars, unless otherwise noted.*

THE DOW/GOLD RATIO AS A MAJOR TREND INDICATOR




Precious metals have proven to be the best protection an investor can have against both inflation and monetary crisis.
– Feb 11, 2008 Nick Barisheff

BATTEN DOWN THE HATCHES

"When times are good, investors take on risk; the longer times stay good, the more risk they take on, until they've taken on too much. This is likely to lead to a collapse of asset values."

– Hyman Minsky, 1974, American Economist

As we begin 2008, the markets are on edge. Exotic "collateralized" and "securitized" credit instruments float through the global economy like financial time bombs. Respected financial experts from all over the world are unable to predict the ultimate impact of the protracted unwinding of the credit bubble. But one fact is undeniable: for nearly three years, gold prices have been rising steadily, they have been rising in all currencies, and that rise is now accelerating.

Advice for Investors

Precious metals bullion prices have always been the proverbial canary in the coalmine: a leading indicator of inflation and an early warning signal of volatile times ahead.

According to most metals experts, we are in the early stages of a long-term uptrend for precious metals. Now is not the time to take profits. In fact, it is time to begin overweighting portfolios in precious metals in order to protect investors' wealth from the threat of systemic risk.

In our opinion, a number of destructive forces are converging on unwary investors, and there is little the US Federal Reserve or the Bank of Canada can do. Early warning signs are everywhere: a global economy weighed down by a declining US dollar, and accompanied by explosive growth in global money supply; slowing US GDP growth that may in fact have stalled; consumer debt that is at all-time highs; savings that are at all-time lows; consumer confidence that has plunged to its lowest level in fifteen years.

For these reasons and more, the upswing in precious metals prices has a long way to go.

"The **subprime credit contagion** of 2007 flustered the US Fed into a **series of rate cuts** that will soon come **back to haunt them.**"

The **Fed's dilemma** is this: if they **reduce interest rates** and **boost the economy**, they will **fuel inflation** and send the dollar down.

Caught Between a Rock and a Hard Place

The question for 2008 is whether the US will experience a slowdown, a recession or stagflation. The presence of inverted yield curves last year suggests an answer. History shows that inverted yield curves – when long-term yields fall below short-term yields – are harbingers of recessions. Bond investors seeking refuge from an impending financial storm look to the safety of long-term Treasuries.

Unfortunately, Fed Chairman Ben Bernanke is caught between a rock and a hard place. The credit bubble finally popped and, worst of all, the damage spread and deepened into 2008 – an election year. The Fed's dilemma is this: if they *reduce* interest rates and boost the economy, they will fuel inflation and send the dollar down. If they increase interest rates, they may keep inflation in check and boost the dollar but they will seriously damage the economy, and with it the political aspirations of the future president. In a stagflationary environment (where growth is stagnant and inflation is rising) there is no good solution.

Greenspan himself warned there is a 50/50 chance of stagflation. Yet increases in the money supply will continue as Ben Bernanke tests his Ph.D. thesis in real life: that a depression or severe recession can be avoided by flooding the system with liquidity. The Fed discontinued reporting M3 in March 2006, but several sources have reconstructed the data and determined that US money supply is now growing at an unprecedented annualized rate of 16%.

Increases in money supply will likely accelerate, since central banks have announced they are prepared to provide liquidity in unlimited amounts in order to maintain bank solvency and prevent a systemic financial crisis. The inflationary implications of this policy are clear.

Credit Card Defaults Are Next

The domino effect of the credit crisis will continue. After mortgage defaults, we can expect car loans and lease defaults to follow. But the biggest issue may well be defaults on credit cards. Americans have accumulated nearly $1 trillion in credit card debt. On a per capita basis, Canadians are no better. Credit card delinquencies will rise because consumers can no longer use their home-equity lines of credit to pay off their cards. The bursting of the credit card bubble in 2008 will be another blow to the fragile credit market. A UK study revealed that, incredibly, 6% of British home-owners have been using their credit cards to

pay their mortgages. New card marketing with teaser rates of 0% ensures that many un-credit-worthy borrowers will face rates from 19% to 36%. The resulting fallout could make the subprime issue look trivial.

Corporate and Municipal Bond Defaults Will Follow

Corporate and municipal bonds could be next in line for trouble. In the corporate bond market, the big monoline insurers (guarantors in the event bond issuers default) may go bankrupt or at the least lose their coveted triple-A credit rating. If a credit change were to happen, all their insured obligations, also triple-A rated, would lose that rating. Because institutional investors are mandated to hold only triple-A loans, this would result in the forced sale of billions of debt instruments into a declining market.

On the municipal bond side, things look equally dire. The subprime credit crisis is forcing many consumers out of their homes. The more homes abandoned, the greater the erosion of municipalities' realty tax base, leaving them unable to pay the billions needed for infrastructure maintenance and development.

Oil Production May Have Peaked

In 2008 an issue called Peak Oil is likely to take centre stage. The term refers not to the amount of oil reserves in the ground, but to production capacity – which has been a concern for many years. In addition, although oil wells are pumping at peak capacity, the number of barrels of oil per year is close to *declining* for the first time ever, while global demand is growing by double-digit amounts. Also, existing refineries are at peak capacity and no new refineries are being built. It is now clear that many of the major producers such as the North Sea, Mexico, Kuwait and others have peaked in terms of oil available for extraction, and are now in decline. Commodities investor Jim Rogers says that "everyone will be surprised by how high oil eventually goes."

Counterparty risk: the great unknown

Counterparty risk will be the main focus in 2008, because a large percentage of subprime mortgages are due to reset, resulting in further foreclosures and more downward pressure on the real estate market. An estimated $250 billion in further losses may be incurred in 2008. As we have recently seen, the counterparties to Collateralized Debt Obligations (CDOs) and mortgages may default. And the counterparty risk in many derivatives is a complete unknown.

...the number of barrels of **oil per year** is **close to declining** for the **first time ever...**

Fannie Mae has $2.6 trillion in insured mortgages, $950 billion of which are subprime, with only $50 billion of actual capital backing it. Bond manager Bill Gross has great concerns about the financial strength of the counterparties to these subprime loans, questioning their ability to post additional collateral when their positions move against them: “This is undoubtedly going to be a growing concern as mortgage and other credit losses swell in 2008.”

The Early Stages of a Long-term Uptrend in Precious Metals

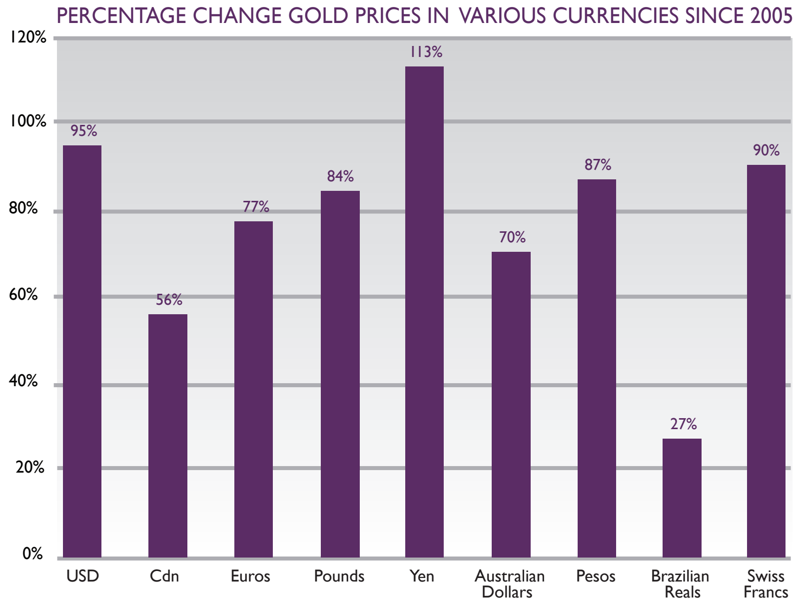
In the late 1970s people lined up for blocks to buy precious metals. On one occasion this year, as gold topped $900 an ounce, only one of the six tellers dealing in gold at Scotiabank in Toronto was serving a customer, and no one was in line. Clearly, few individual (let alone institutional) investors are aware that precious metals are enjoying a long-term bull market with strong fundamentals, signalling that the uptrend has much longer to run.

Allocate at least 20% to precious metals

Investors cannot ignore the warning signs if they want to protect their wealth. It is time to rebalance portfolios for safety rather than growth. Physical bullion provides the greatest degree of negative correlation to traditional financial assets, and will help protect portfolios from a market decline. For more substantial protection, investors need to allocate more to bullion. Given the precarious state of the economy and the markets, we recommend a minimum allocation of 20%, but Wainwright Economics suggests an even higher percentage – 40% or more.

Price forecasts

Price forecasts for gold in 2008 cover a wide range, but the current price does not really matter. Why? Because over the long term, prices of precious metals – gold, silver and platinum – will rise to much higher levels, in all currencies. The underlying factors causing the current increases will not only continue but likely accelerate. Many analysts predict that in 2008 gold will surpass $1,000 per ounce, silver $20 per ounce and platinum $2,000 per ounce, and in years to come prices will go much higher. This year, precious metals gains measured in Canadian (versus US) dollars will be similar, as the Canadian dollar either declines against the US dollar or remains near parity.



The Time To Act Is Now

In an interview with *Fortune* magazine, Jim Rogers said that times are going to get much worse:

> "Bernanke is printing huge amounts of money. He's out of control and the Fed is out of control. We are probably going to have one of the worst recessions we've had since the Second World War."

Will Fed action produce the mega-bubble of all bubbles? No one knows for sure, but the odds are rising every day. "The kind of upheaval observed in the international money markets over the past few months has never been witnessed in history," says Thomas Jordan, a Swiss central bank governor. "The subprime mortgage crisis hit a vital nerve of the international financial system." Segregated, unallocated precious metals bullion cannot be leveraged, printed or borrowed. That is why it provides unsurpassed, low-risk protection against both systemic events and inflation.

We are in the midst of the worst financial crisis the credit markets have ever seen. While the US dollar may be the world's reserve currency, precious metals are the world's reserve of real wealth. Precious metals are real assets with enduring value, which is why – in any market environment – their prices will continue to rise.

The time to act is now.

**All amounts expressed in US dollars, unless otherwise noted.*

...**precious metals** are the world's **reserve** of **real wealth.**

NAME CHANGE ANNOUNCEMENT

Millennium BullionFund to be called BMG BullionFund, effective March 18, 2008

Bullion Management Group Inc. (BMG) is pleased to announce that, effective March 18, 2008, its wholly-owned subsidiary, Bullion Management Services Inc., will be changing the name of its mutual fund, The Millennium BullionFund™, to BMG BullionFund™. This name change better identifies the BullionFund as an investment product of BMG, one of the world's fastest-growing precious metals financial services companies. In addition, the company is planning to launch two new investment products under the BMG name later this year. Full information on these products will be provided in the months ahead. We anticipate a most exciting and rewarding 2008 for all our investors.

Financial Statements

Auditors Report

To the Shareholders of
The Millennium BullionFund

We have audited the statement of investment portfolio of The Millennium BullionFund ("the Fund") as at December 31, 2007, the statements of net assets as at December 31, 2007 and 2006, 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, 2007, the net assets of the Fund as at December 31, 2007 and 2006, and the results of its operations and 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 13, 2008.

STATEMENTS OF NET ASSETS

As at December 31	2007 $	2006 $
ASSETS		
Gold, silver and platinum bullion, at market value	124,039,219	84,946,726
[Average cost: $98,265,397; 2006 - $66,211,454]		
Cash	1,613,902	2,139,515
Subscriptions receivable	176,229	296,158
	125,829,350	87,382,399
LIABILITIES		
Management fees payable	225,358	145,412
Accounts payable and accrued liabilities	354,328	212,523
Redemptions payable	264,210	48,6110
	843,896	406,546
Net assets represented by unitholders' equity	124,985,454	86,975,853
Class A	92,851,312	66,299,404
Class E09	322,159	-
Class E11	4,298,173	4,138,965
Class F	8,937,600	7,758,537
Class G01	9,001,835	559,061
Class G05	1,362,608	1,826,636
Class G09	1,370,581	1,307,175
Class G10	1,115,657	522,251
Class G11	5,725,529	4,563,824
	124,985,454	86,975,853
Net asset value per unit		
Class A	8.41	8.20
Class E09	8.72	-
Class E11	8.77	8.44
Class F	8.72	8.42
Class G01	8.48	8.27
Class G05	9.05	8.78
Class G09	8.62	8.32
Class G10	8.57	8.26
Class G11	8.62	8.31

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

As at December 31	2007 $	2006 $
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain on investments	-	877,313
Net realized loss on foreign exchange	(23,620)	(4,952)
Change in unrealized appreciation of investments	7,032,291	13,623,482
Net gain on investments	7,008,671	14,495,843
INVESTMENT INCOME		
Early redemption fees	37,937	269,762
Interest	7,679	5,845
	45,616	275,607
EXPENSES		
Management fees [note 3]	2,180,365	1,372,311
Securityholder reporting costs	565,698	318,667
Bullion storage fees	342,765	212,895
Goods and Services Tax	193,230	121,065
Other administrative expenses	41,704	47,467
Legal fees	77,516	52,211
Audit fees	52,317	39,795
Interest and bank charges	754	3,082
	3,454,349	2,167,493
Expenses absorbed by Manager [note 3]	-	131,116
	3,454,349	2,036,37
Net investment loss for the year	(3,408,733)	(1,760,770)
Increase in net assets from operations	3,599,938	12,735,073
Increase in net assets from operations per class		
Class A	2,380,865	9,594,062
Class E09	2,159	-
Class E11	159,208	699,989
Class F	320,348	1,094,746
Class G01	395,724	15,403
Class G05	22,510	163,015
Class G09	42,958	432,683
Class G10	13,436	(21,980)
Class G11	262,730	757,155
Increase in net assets from operations per unit		
Class A	0.24	1.41
Class E09	0.06	-
Class E11	0.32	1.42
Class F	0.33	1.59
Class G01	0.53	0.59
Class G05	0.12	1.25
Class G09	0.27	1.10
Class G10	0.11	(0.35)
Class G11	0.44	1.83

See accompanying notes

STATEMENTS OF CHANGES IN NET ASSETS

	Class A		Class E09	
Years ended December 31	2007 $	2006 $	2007 $	2006 $
Net assets, beginning of year	66,299,404	33,855,256	-	-
Increase in net assets from operations	2,380,865	9,594,062	2,159	-
Capital transactions				
Proceeds from issuance of units	34,954,436	31,798,930	320,000	-
Redemption of units	(10,783,393)	(8,948,844)	-	-
	24,171,043	22,850,086	320,000	-
Net assets, end of year	92,851,312	66,299,404	322,159	-

	Class E11		Class F	
	2007 $	2006 $	2007 $	2006 $
Net assets, beginning of year	4,138,965	-	7,758,537	5,949,475
Increase in net assets from operations	159,208	699,989	320,348	1,094,746
Capital transactions				
Proceeds from issuance of units	-	3,438,976	3,247,296	4,762,032
Redemption of units	-	-	(2,388,581)	(4,047,716)
	-	3,438,976	858,715	714,316
Net assets, end of year	4,298,173	4,138,965	8,937,600	7,758,537

	Class G01		Class G05	
	2007 $	2006 $	2007 $	2006 $
Net assets, beginning of year	559,061	-	1,826,636	262,709
Increase in net assets from operations	395,724	15,403	22,510	163,015
Capital transactions				
Proceeds from issuance of units	8,739,841	543,658	199,909	1,541,869
Redemption of units	(692,791)	-	(686,447)	(140,957)
	8,047,050	543,658	(486,538)	1,400,912
Net assets, end of year	9,001,835	559,061	1,362,608	1,826,636

See accompanying notes

STATEMENTS OF CHANGES IN NET ASSETS *(continued)*

Years ended December 31	Class G09		Class G10	
	2007 $	2006 $	2007 $	2006 $
Net assets, beginning of year	1,307,175	371,382	522,251	-
Increase in net assets from operations	42,958	432,683	13,436	(21,980)
Capital transactions				
Proceeds from issuance of units	287,583	7,516,819	580,088	544,342
Redemption of units	(267,135)	(7,013,709)	(118)	(111)
	20,448	503,110	579,970	544,231
Net assets, end of year	1,370,581	1,307,175	1,115,657	522,251

	Class G11		Total	
	2007 $	2006 $	2007 $	2006 $
Net assets, beginning of year	4,563,824	2,170,296	86,975,853	42,609,11
Increase rom operations	262,730	757,155	3,599,938	12,735,073
Capital transactions				
Proceeds from issuance of units	1,326,333	1,913,826	49,655,486	52,060,453
Redemption of units	(427,358)	(277,453)	(15,245,823)	(20,428,791)
	898,975	1,636,373	34,409,663	31,631,662
Net assets, end of year	5,725,529	4,563,824	124,985,454	86,975,853

See accompanying notes

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2007 Description	Fine Ounces	Average Cost $	Market Value $	Total %
Gold, silver and platinum bullion				
Gold Bullion	50,730	32,617,675	41,744,467	33.65
Silver Bullion	2,938,627	32,884,540	42,808,216	34.52
Platinum Bullion	26,149	32,763,182	39,486,536	31.83
Total Investment portfolio		98,265,397	124,039,219	100.00

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

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 9 classes of units. These financial statements pertain to Class A, Class E09, Class E11, Class F, Class G01, Class G05, Class G09, Class G10 and Class G11 units. Effective April 16, 2007 Class E01 was renamed Class E11. All classes share the same attributes from a valuation perspective except that they are subject to different management fee rates.

The Fund is also authorized to issue Class I units, none of which were issued during 2007.

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 and Custody of investments

Gold, silver and platinum bullion are valued on the London PM fix 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.

The Fund's gold, silver and platinum bullion is held under custodian agreement for the Fund by 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.

	Allocated	Unallocated	Total December 31,2007	Allocated	Unallocated	Total December 31, 2006
Gold (oz)	49,903.242	826,987	50,730.229	36,192.589	314.875	36,507.464
Silver (oz)	2,901,938.252	36,689.189	2,938,627.441	2,205,659.468	14,286.468	2,219,946.380
Platinum (oz)	25,750.716	398.662	26,149.378	18,441.789	176.952	18,618.741

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

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 and unrealized gains and losses are allocated to each class of the Fund based on the class's pro-rated share of total net assets of the Fund.

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 London Stock 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 period divided by the weighted average number of units of that class outstanding during the year.

Adoption of New Accounting Standard

From January 1, 2007, the Fund adopted CICA Handbook s.3855 that provides guidance for recognition, classification, initial and subsequent measurement of financial instruments, s.3861 that provides disclosure guidance for financial instruments and s.1530 comprehensive income. Since the Fund had previously adopted the requirements of AcG 18 for fair value measurement of financial instruments, the adoption of these standards had no impact on the Fund's financial statements. Since the Fund's financial instruments continue to be recorded at amortized cost, which approximates fair value, comprehensive income equals increase in net assets from operations since the Fund does not have any financial items that generate other comprehensive income.

Future Accounting Changes

The CICA has issued two new accounting standards, Section 3862, Financial Instruments – Disclosure and Section 3863, Financial Instruments – Presentation, which apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. CICA 3862 places increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. It also removes duplicate disclosures and simplifies disclosures about concentrations of risk, credit risk, liquidity risk and price risk found in CICA 3861; CICA 3863 carries forward the presentation requirements from Section 3861, unchanged. The Fund intends to adopt these new standards effective January 1, 2008. The impact of adopting these two standards is not expected to be material to the Fund's financial statements.

3. 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 E09, 1.00% for Class E11, 1.25% for Class F, 2.25% for Class G01, 1.75% for Class G05, 1.25% for Class G09, 1.125% for Class G10 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. No operating expenses were absorbed in 2007 ($131,116 in 2006).

A sales commission may be charged by a registered dealer or representative at the time investors buy Class A units, Class E 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.

4. INCOME TAX LOSS CARRY FORWARDS

The Fund has non-capital loss carryforwards of approximately $6,489,000 [2006: $3,057,000] available to offset future years' taxable income with $33,000 expiring in 2009, $365,000 in 2010, $857,000 in 2014, $914,000 in 2015, $888,000 in 2026 and $3,432,000 in 2027.

5. UNIT HOLDERS' EQUITY

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

	Class A 2007	2006	Class E09 2007	2006
Balance, beginning of year	8,082,540	5,139,160	-	-
Issued	4,292,583	4,096,394	36,945	-
Redeemed	(1,336,127)	(1,153,014)	-	-
Balance, end of year	11,038,996	8,082,540	36,945	-

	Class E11 2007	2006	Class F 2007	2006
Balance, beginning of year	490,221	-	921,562	887,830
Issued	-	490,221	388,300	600,276
Redeemed	-	-	(284,959)	(566,544)
Balance, end of year	490,221	490,221	1,024,903	921,562

	Class G01 2007	2006	Class G05 2007	2006
Balance, beginning of year	67,630	-	208,083	37,436
Issued	1,082,045	67,630	22,721	187,787
Redeemed	(87,532)	-	(80,253)	(17,140)
Balance, end of year	1,062,143	67,630	150,551	208,083

	Class G09 2007	2006	Class G10 2007	2006
Balance, beginning of year	157,128	56,150	63,209	-
Issued	35,083	967,706	66,995	63,222
Redeemed	(33,255)	(866,728)	(14)	(13)
Balance, end of year	158,956	157,128	130,190	63,209

	Class G11 2007	2006
Balance, beginning of year	549,106	328,865
Issued	164,535	251,222
Redeemed	(49,695)	(30,981)
Balance, end of year	663,946	549,106

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's excess cash is invested only in gold, silver and platinum bullion. As a result, the Fund is exposed to various types of risks that are associated with its investment strategy. The most of important risks include precious metals risk and foreign currency risk.

Precious Metals Risk

The prices for gold, silver and platinum bullion are affected by a variety of factors including changing supply and demand relationships and international political and economic events. In addition, governments may intervene from time to time, directly and by regulation, in certain markets such as gold. These factors will indirectly affect the prices for gold, silver and platinum bullion.

Direct purchases of gold, silver and platinum bullion may generate higher transaction and custody costs than other types of investments, which may impact the performance of the Fund.

Precious metals do not generate an income stream if held in an allocated, segregated account and not leased. As the Fund does not lease its bullion, it will only earn money to the extent that it sells gold, silver and platinum at a profit.

Foreign Currency Risk

Gold, silver and platinum bullion are usually traded in U.S. dollars and, as a result, the Fund is vulnerable to foreign currency risk. If the Canadian dollar declines in value against the foreign currency, the value of an investment expressed in Canadian currency will increase. If the Canadian dollar increases in value against the foreign currency, the value of an investment expressed in Canadian currency will decrease. The Fund does not intend to hedge its foreign currency exposure.

CORPORATE INFORMATION

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The forward looking information, opinions, estimates and projections contained herein are solely those of Bullion Management Services Inc. (BMS) and are subject to change without notice. BMS makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, BMS assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. The information should not be regarded by recipients as a substitute for the exercise of their own judgement. Commissions, trailing commissions, management fees and expenses all may be associated with an investment in The Millennium BullionFund™. Please read the prospectus before investing. The Millennium BullionFund™ is not guaranteed, its units fluctuate in value and past performance may not be repeated.

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