

Sprott Physical Gold Trust

Report to Unitholders

SEPTEMBER 30,
2015



Sprott
PHYSICAL GOLD
Trust

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The management report of fund performance is an analysis and explanation that is designed to complement and supplement an investment fund's financial statements. This report contains financial highlights but does not contain the complete interim financial statements of the investment fund. A copy of the interim financial statements has been included separately within the Report to Unitholders. You can also get a copy of the interim financial statements at your request, and at no cost, by calling 1-866-299-9906, by visiting our website at www.sprottphysicalgoldtrust.com or SEDAR at www.sedar.com or by writing to us at: Sprott Asset Management LP, Royal Bank Plaza, South Tower, 200 Bay Street, Suite 2700, P.O. Box 27, Toronto, Ontario M5J 2J1.

Management Report of Fund Performance (in U.S. dollars)

Investment Objective and Strategies

Sprott Physical Gold Trust (the “Trust”) is a closed-end mutual fund trust organized under the laws of the Province of Ontario, Canada, created to invest and hold substantially all of its assets in physical gold bullion. The Trust seeks to provide a secure, convenient and exchange-traded investment alternative for investors interested in holding physical gold bullion without the inconvenience that is typical of a direct investment in physical gold bullion. The Trust intends to achieve its objective by investing primarily in long-term holdings of unencumbered, fully allocated, physical gold bullion and does not speculate with regard to short-term changes in gold prices.

The units of the Trust are listed on the New York Stock Exchange (“NYSE”) Arca and the Toronto Stock Exchange (“TSX”) under the symbols “PHYS” and “PHY.U”, respectively.

Risks

The risks of investing in the Trust are detailed in the Trust’s annual information form dated March 30, 2015. There have been no material changes to the Trust since inception that have affected the overall level of risk. The principal risks associated with investing in the Trust are the price of gold, the net asset value and/or the market price of the units, the purchase, transport, insurance and storage of physical gold bullion, liabilities of the Trust, and redemptions of units.

Results of Operations

For the period from July 1, 2015 to September 30, 2015, the total change in unrealized losses on physical gold bullion amounted to \$57.8 million compared to the change in unrealized losses of \$161.2 million during the same period in 2014. For the period from January 1, 2015 to September 30, 2015, the total change in unrealized losses on physical gold bullion amounted to \$59.9 million compared to the change in unrealized gains of \$42.8 million during the same period in 2014.

During the period from January 1, 2015 to September 30, 2015, the Trust did not issue any units. During that period, 2,250 units were redeemed for cash at a total cost of \$21,952, and 12,677,376 units were redeemed for gold bullion.

The value of the net assets of the Trust as of September 30, 2015 was \$1,334.0 million or \$9.22 per unit, compared to \$1,547.2 million or \$9.84 per unit as at December 31, 2014. The Trust held 1,195,490 ounces of physical gold bullion as of September 30, 2015, a decrease from 1,300,518 at December 31, 2014. As at September 30, 2015, the spot price of gold was \$1,115.07 an ounce compared to a price of \$1,184.86 an ounce as at December 31, 2014. The Trust returned -6.2% compared to the return on spot gold of -5.8% for the period from January 1, 2015 to September 30, 2015.

The Trust’s net asset value per unit on September 30, 2015 was \$9.22 compared to \$9.84 per unit as at December 31, 2014. The units closed at \$9.18 on the NYSE Arca and \$9.19 on the TSX on September 30, 2015 compared to closing prices of \$9.77 on the NYSE Arca and \$9.92 on the TSX on December 31, 2014. The units are denominated in U.S. dollars on both exchanges. During the period from January 1, 2015 to September 30, 2015, the Trust’s units traded on the NYSE Arca at an average discount to net asset value of approximately 0.3%.

Recent Developments

Sprott Asset Management LP (“Sprott”), together with Sprott Physical Gold Trust and Sprott Physical Silver Trust (the “Sprott Physical Trusts”), announced on May 27, 2015 that it has formally commenced its offers (the “Offers”) to acquire all of the outstanding units of Central GoldTrust (“GTU”) and Silver Bullion Trust (“SBT”), respectively, on a Net Asset Value (“NAV”) to NAV exchange basis. The Offers also include a premium to be paid by Sprott and expire at 5:00pm (Toronto time) on November 20, 2015.

OPERATING EXPENSES

The Trust pays its own operating expenses, which include, but are not limited to, audit, legal, trustee fees, unitholder reporting expenses, general and administrative fees, filing and listing fees payable to applicable securities regulatory authorities and stock exchanges, storage fees for the physical gold bullion, costs incurred in connection with the Trust's continuous disclosure public filing requirements and investor relations and any expenses associated with the Independent Review Committee of the Trust. Operating expenses for the period from July 1, 2015 to September 30, 2015 amounted to \$351,317 (not including applicable Canadian taxes) compared to \$466,766 for the same period in 2014. Operating expenses for the period from January 1, 2015 to September 30, 2015 amounted to \$1,134,102 (not including applicable Canadian taxes) compared to \$1,709,740 for the same period in 2014. The decrease in operating expenses over the period was primarily due to lower bullion storage fees incurred, as well as lower unitholder reporting, administrative and regulatory fees. Operating expenses for the period from July 1, 2015 to September 30, 2015 amounted to 0.10% of the average net assets during the period on an annualized basis, compared to 0.11% for the same period in 2014. Operating expenses for the period from January 1, 2015 to September 30, 2015 amounted to 0.10% of the average net assets during the period on an annualized basis, compared to 0.13% for the same period in 2014.

Related Party Transactions

MANAGEMENT FEES

The Trust pays the Manager, Sprott Asset Management LP, a monthly management fee equal to $\frac{1}{12}$ of 0.35% of the value of the net assets of the Trust (determined in accordance with the trust agreement), plus any applicable Canadian taxes. The management fee is calculated and accrued daily and payable monthly in arrears on the last day of each month. For the period from July 1, 2015 to September 30, 2015, the Trust incurred management fees of \$1,217,958 (not including applicable Canadian taxes) compared to \$1,559,592 for the same period in 2014. For the period from January 1, 2015 to September 30, 2015, the Trust incurred management fees of \$3,864,668 (not including applicable Canadian taxes) compared to \$4,721,798 for the same period in 2014.

Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the three and nine-month periods ended September 30, 2015 and for the years shown.

Net assets per unit¹

	For the three months ended September 30, 2015	For the nine months ended September 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
	\$	\$	\$	\$	\$	\$	\$
Net assets per unit, beginning of period	9.71	9.84	10.06	14.00	13.17	12.07	10.00
Increase (decrease) from operations²:							
Total revenue	–	–	–	–	–	–	–
Total expenses	(0.01)	(0.03)	(0.05)	(0.05)	(0.06)	(0.06)	(0.05)
Realized gains (losses) for the period	(0.09)	(0.17)	(0.30)	(0.02)	–	–	–
Unrealized gains (losses) for the period	(0.39)	(0.40)	0.15	(3.86)	0.64	1.07	3.06
Total increase (decrease) from operations	(0.49)	(0.60)	(0.20)	(3.93)	0.58	1.01	3.01
Net assets per unit, end of period	9.22	9.22	9.84	10.06	14.00	13.17	12.07

1 This information is derived from the Trust's financial statements.

2 Net assets per unit is calculated based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period shown. This table is not intended to be a reconciliation of the beginning to ending net assets per unit.

Ratios and Supplemental Data

	September 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Total net asset value (000's) ¹	\$1,333,980	\$1,547,158	\$1,895,056	\$2,734,847	\$1,921,684	\$1,171,745
Number of Units outstanding ¹	144,610,867	157,290,493	188,353,275	195,368,753	145,921,197	97,049,573
Management expense ratio ²	0.48%	0.51%	0.45%	0.42%	0.47%	0.46%
Trading expense ratio ³	Nil	Nil	Nil	Nil	Nil	Nil
Portfolio turnover rate ⁴	Nil	Nil	Nil	Nil	Nil	Nil
Net asset value per Unit	\$9.22	\$9.84	\$10.06	\$14.00	\$13.17	\$12.07
Closing market price – NYSE Arca	\$9.18	\$9.77	\$9.96	\$14.21	\$13.81	\$12.35
Closing market price – TSX	\$9.19	\$9.92	\$9.98	\$14.24	\$13.84	\$12.32

1 This information is provided as at the date shown, as applicable.

2 Management expense ratio ("MER") is based on total expenses (including applicable Canadian taxes and excluding commissions and other portfolio transaction costs) for the stated period and is expressed as annualized percentages of daily average net asset value during the period.

3 The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period shown. Since there are no direct trading costs associated with physical bullion trades, the trading expense ratio is nil.

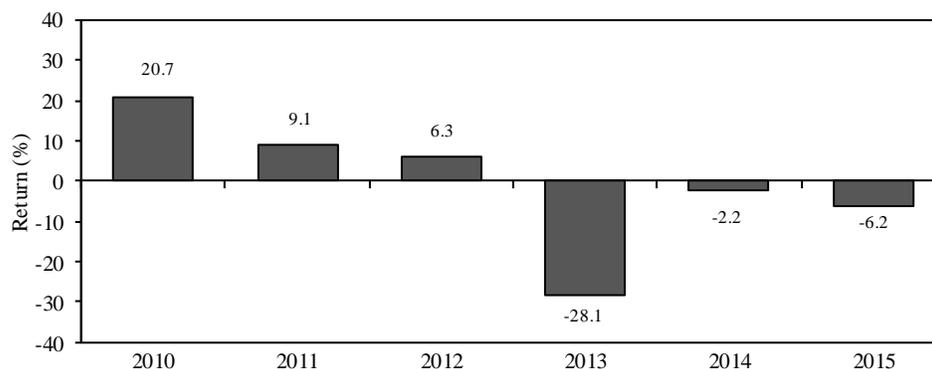
4 The Trust's portfolio turnover rate indicates how actively the Trust's portfolio adviser trades its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher the Trust's portfolio turnover rate in a year, the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Trust.

Past Performance

The indicated rates of return are the historical total returns including changes in unit values and assume reinvestment of all distributions in additional units of the Trust. These returns do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that may reduce returns. Please note that past performance is not indicative of future performance. All rates of returns are calculated based on the Net Asset Value of the units of the Trust.

Year-by-Year Returns

The bar chart below indicates the performance of the Trust units for the period from January 1, 2015 to September 30, 2015 (not annualized), and for the years shown. The chart shows, in percentage terms, how much an investment made on the first day of each period would have grown or decreased by the last day of each period.



Summary of Investment Portfolio

As of September 30, 2015

	Ounces	Fair Value per ounce \$	Cost \$	Fair Value \$	% of Net Asset Value %
Physical gold bullion	1,195,490	1,115.07	1,684,399,769	1,333,055,392	99.9
Cash				1,241,612	0.1
Other Net Liabilities				(316,617)	0.0
Total Net Asset Value				1,333,980,387	100.0

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Trust.

Sprott Physical Gold Trust
Unaudited interim financial statements
September 30, 2015

Sprott Physical Gold Trust

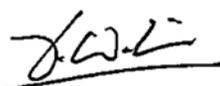
Unaudited statements of comprehensive income (loss)

(in U.S. dollars, except unit amounts)

	For the three months ended September 30, 2015	For the three months ended September 30, 2014	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
	\$	\$	\$	\$
Income				
Net realized gains (losses) on redemptions/sales of bullion	(12,934,127)	(2,023,228)	(25,453,745)	(34,160,589)
Change in unrealized gains (losses) on gold bullion	(57,779,416)	(161,209,290)	(59,895,059)	42,826,432
Sales Tax refund	-	-	-	56,102
	(70,713,543)	(163,232,518)	(85,348,804)	8,721,945
Expenses				
Management fees (note 8)	1,217,958	1,559,592	3,864,668	4,721,798
Bullion storage fees	186,184	212,413	569,954	681,560
Sales tax	82,449	121,223	263,378	424,310
Unitholder reporting costs	32,028	88,082	123,175	235,754
Audit fees	30,079	28,318	90,237	104,891
Legal fees	28,247	21,401	84,743	69,335
Listing and regulatory filing fees	28,054	36,264	84,162	307,577
Administrative fees	27,700	59,693	137,166	252,200
Net foreign exchange (gains) losses	16,569	19,313	37,058	22,505
Trustee fees	1,250	1,250	3,750	3,750
Independent Review Committee fees	1,137	-	3,409	30,800
Custodial fees	69	32	448	1,368
	1,651,724	2,147,581	5,262,148	6,855,848
Net Income (loss) and comprehensive income (loss)	(72,365,267)	(165,380,099)	(90,610,952)	1,866,097
Weighted average number of units	147,910,237	165,584,542	150,888,640	168,077,823
Increase (decrease) in total equity from operations per Unit	(0.49)	(1.00)	(0.60)	0.01

The accompanying notes are an integral part of these financial statements.

On behalf of the Manager, Sprott Asset Management LP,
by its General Partner, Sprott Asset Management GP Inc.:



John Wilson
Director



Steven Rostowsky
Director

Sprott Physical Gold Trust

Unaudited statements of financial position

(in U.S. dollars)

	As at September 30, 2015	As at December 31, 2014
	\$	\$
Assets		
Current assets		
Cash	1,241,612	6,147,184
Gold bullion	1,333,055,392	1,540,931,734
Prepaid assets	343,800	343,800
Total assets	1,334,640,804	1,547,422,718
Liabilities		
Current liabilities		
Accounts payable	660,417	264,416
Total liabilities	660,417	264,416
Equity		
Unitholders' capital	1,919,299,081	2,046,095,341
Unit premium and reserves	82,452	81,296
Retained earnings (deficit)	(484,576,135)	(398,193,324)
Underwriting commissions and issue expenses	(100,825,011)	(100,825,011)
Total equity (note 7)	1,333,980,387	1,547,158,302
Total liabilities and equity	1,334,640,804	1,547,422,718
Total equity per Unit	9.22	9.84

The accompanying notes are an integral part of these financial statements.

Sprott Physical Gold Trust

Unaudited statements of changes in equity

(in U.S. dollars, except unit amounts)

For the nine months ended September 30, 2015 and 2014

	Number of Units Outstanding	Unitholders' Capital	Retained Earnings (Deficit)	Underwriting Commissions and Issue Expenses	Unit Premiums and Reserves	Total Equity
		\$	\$	\$	\$	\$
Balance at January 1, 2014	188,353,275	2,356,723,161	(360,923,901)	(100,825,011)	81,291	1,895,055,540
Cost of redemption of Units	(23,256,646)	(232,566,460)	(6,491,385)	-	5	(239,057,840)
Net income for the period	-	-	1,866,097	-	-	1,866,097
Balance at September 30, 2014	165,096,629	2,124,156,701	(365,549,189)	(100,825,011)	81,296	1,657,863,797
Balance at January 1, 2015	157,290,493	2,046,095,341	(398,193,324)	(100,825,011)	81,296	1,547,158,302
Cost of redemption of Units (<i>note 7</i>)	(12,679,626)	(126,796,260)	4,228,141	-	1,156	(122,566,963)
Net loss for the period	-	-	(90,610,952)	-	-	(90,610,952)
Balance at September 30, 2015	144,610,867	1,919,299,081	(484,576,135)	(100,825,011)	82,452	1,333,980,387

The accompanying notes are an integral part of these financial statements.

Sprott Physical Gold Trust

Unaudited statements of cash flows

(in U.S. dollars)

	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
	\$	\$
Cash flows from operating activities		
Net income (loss) for the period	(90,610,952)	1,866,097
Adjustment to reconcile net income (loss) for the period to net cash from operating activities		
Realized losses on redemptions for gold bullion	25,453,745	34,160,589
Unrealized (gains) losses on gold bullion	59,895,059	(42,826,432)
Net changes in operating assets and liabilities		
Decrease in accounts receivable	-	50,215
Increase in accounts payable	396,001	829,238
Decrease in prepaid assets	-	212,564
Net cash used in operating activities	(4,866,147)	(5,707,729)
Cash flows from financing activities		
Payments on redemption of Units (note 7)	(39,425)	(179,025)
Net cash used in financing activities	(39,425)	(179,025)
Net decrease in cash during the period	(4,905,572)	(5,886,754)
Cash at beginning of period	6,147,184	14,688,442
Cash at end of period	1,241,612	8,801,688

The accompanying notes are an integral part of these financial statements.

Sprott Physical Gold Trust

Notes to financial statements – Trust specific information (unaudited) September 30, 2015

(in U.S. dollars)

Financial Risk Management *(note 6)*

Investment Objective

The investment objective of the Trust is to seek to provide a secure, convenient and exchange-traded investment alternative for investors interested in holding physical gold bullion without the inconvenience that is typical of a direct investment in physical gold bullion. The Trust invests and intends to continue to invest primarily in long-term holdings of unencumbered, fully allocated, physical gold bullion and does not speculate with regard to short-term changes in gold prices. The Trust has only purchased and expects only to own “Good Delivery Bars” as defined by the London Bullion Market Association (“LBMA”), with each bar purchased being verified against the LBMA source.

Significant risks that are relevant to the Trust are discussed here. General information on risks and risk management is described in Note 6.

Market Risk

a) Other Price Risk

If the market value of gold increased by 1%, with all other variables held constant, this would have increased total equity and comprehensive income by approximately \$13.3 million (December 31, 2014: \$15.4 million); conversely, if the value of gold bullion decreased by 1%, this would have decreased total equity and comprehensive income by the same amount.

b) Currency Risk

As at September 30, 2015, approximately \$211,000 (December 31, 2014: \$171,000) of the Trust’s liabilities were denominated in Canadian dollars.

Concentration Risk

The Trust’s risk is concentrated in physical gold bullion, whose value constitutes 99.9% of total equity as at September 30, 2015 (99.6% as at December 31, 2014).

Management fees *(note 8)*

The Trust pays the Manager a monthly management fee equal to $\frac{1}{12}$ of 0.35% of the value of net assets of the Trust (determined in accordance with the Trust Agreement) plus any applicable Canadian taxes, calculated and accrued daily and payable monthly in arrears on the last day of each month.

Also, the Manager has agreed that if the expenses of the Trust, including the management fee, at the end of any month exceed an amount equal to $\frac{1}{12}$ of 0.65% of the value of the net assets of the Trust, the management fee payable to the Manager for such month will be reduced by the amount of such excess up to the gross amount of the management fee earned by the Manager from the Trust for such month. Any such reduction in the management fee will not be carried forward or remain payable to the Manager in future months. The Manager did not waive any amounts payable for the three and nine month periods ending September 30, 2015 and 2014. In calculating the expenses of the Trust for purposes of the expense cap, the following will be excluded: any applicable taxes payable by the Trust or to which the Trust may be subject, and any extraordinary expenses of the Trust.

Related Party Disclosures *(note 8)*

There have been no other transactions between the Trust and its related parties during the reporting period, other than management fees as discussed above.

Sprott Physical Bullion Trusts

Generic Notes to Financial Statements (unaudited) September 30, 2015

1. Organization of the Trusts

Sprott Physical Gold Trust, Sprott Physical Silver Trust and Sprott Physical Platinum and Palladium Trust (collectively, the “Trusts” and each a “Trust”) are closed-end mutual fund trusts created under the laws of the Province of Ontario, Canada, pursuant to trust agreements. Sprott Asset Management LP (the “Manager”) acts as the manager of the Trusts. RBC Investor Services Trust, a trust company organized under the laws of Canada, acts as the trustee of the Trusts. RBC Investor Services Trust also acts as custodian on behalf of the Trusts for the Trusts’ assets other than physical bullion. The Royal Canadian Mint acts as custodian on behalf of the Trusts for the physical bullion owned by the Trusts. The Trusts’ registered office is located at Suite 2700, South Tower, Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada, M5J 2J1.

The Trusts are authorized to issue an unlimited number of redeemable, transferable trust units (the “Units”). All issued Units have no par value, are fully paid for, and are listed and traded on the New York Stock Exchange Arca (the “NYSE Arca”) and the Toronto Stock Exchange (the “TSX”). The date of inception and trading symbols of each of the Trusts is as follows:

Trust	Trust Agreement date	Initial Public Offering date	NYSE Arca and TSX symbols, respectively
Sprott Physical Gold Trust	August 28, 2009, as amended and restated as of December 7, 2009 and as further amended and restated as of February 1, 2010	March 3, 2010	PHYS, PHY.U
Sprott Physical Silver Trust	June 30, 2010, as amended and restated as of October 1, 2010	October 28, 2010	PSLV, PHS.U
Sprott Physical Platinum and Palladium Trust	December 23, 2011, as amended and restated as of June 6, 2012	December 19, 2012	SPPP, PPT.U

The Statements of Financial Position of each of the Trusts are as at September 30, 2015 and December 31, 2014. The Statements of Comprehensive Income for each Trust are for the three and nine month periods ended September 30, 2015 and 2014, and the Statements of Changes in Equity and Statements of Cash Flows for each Trust are for the nine month periods ended September 30, 2015 and 2014.

These financial statements were authorized for issue by the Manager on November 12, 2015.

2. Basis of Preparation

These financial statements have been prepared in compliance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting* as published by the International Accounting Standards Board (“IASB”) and include estimates and assumptions made by the Manager that may affect the reported amounts of assets, liabilities, income, expenses and the reported amounts of changes in Net Assets during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared on a going concern basis using the historical cost convention, except for physical bullion and financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

The financial statements are presented in U.S. dollars and all values are rounded to the nearest dollar unless otherwise indicated.

Sprott Physical Bullion Trusts

Generic Notes to Financial Statements (unaudited) September 30, 2015

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Trusts:

Physical bullion

Investments in physical bullion are measured at fair value determined by reference to published price quotations, with unrealized and realized gains and losses recorded in income based on the International Accounting Standards 40 *Investment Property* fair value model as IAS 40 is the most relevant standard to apply. Investment transactions in physical bullion are accounted for on the business day following the date the order to buy or sell is executed. Realized and unrealized gains and losses of holdings are calculated on an average cost basis.

Other assets and liabilities

Other assets and liabilities are recognized at fair value upon initial recognition. Other assets such as due to broker, and income receivables are classified as loans and receivables and measured at amortized cost. Other financial liabilities are measured at amortized cost.

Income taxes

In each taxation year, the Trusts will be subject to income tax on taxable income earned during the year, including net realized taxable capital gains. However, the Trusts intend to distribute their taxable income to unitholders at the end of every fiscal year and therefore the Trusts themselves would not have any income tax liability.

Functional and presentation currency

Each Trust's functional and presentation currency is the U.S. Dollar. The Trusts' performance is evaluated and its liquidity is managed in U.S. Dollars. Therefore, the U.S. Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Trusts' financial statements are listed below. The Trusts intend to adopt applicable standards when they become effective.

IFRS 9, Financial Instruments - Classification and Measurement ("IFRS 9"): In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Trusts are in the process of assessing the impact of IFRS 9.

4. Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Trusts have made in preparing the financial statements:

Sprott Physical Bullion Trusts

Generic Notes to Financial Statements (unaudited) September 30, 2015

Estimation Uncertainty

For tax purposes, the Trusts generally treats gains from the disposition of bullion as capital gains, rather than income, as the Trusts intend to be long-term passive holders of bullion, and generally dispose of their holdings in bullion only for the purposes of meeting redemptions and to pay expenses. The Canada Revenue Agency has, however, expressed its opinion that gains (or losses) of mutual fund trusts resulting from transactions in commodities should generally be treated for tax purposes as ordinary income rather than as capital gains, although the treatment in each particular case remains a question of fact to be determined having regard to all the circumstances.

The Trusts based their assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Trusts. Such changes are reflected in the assumptions when they occur.

5. Fair Value Measurements

The Trusts use a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value their investments. The fair value hierarchy has the following levels:

- Level 1 Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Trusts have the ability to access at the measurement date;
- Level 2 Quoted prices which are not active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3 Prices, inputs or complex modeling techniques which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Physical bullion is measured at fair value. The fair value measurement of all bullion falls within Level 1 of the hierarchy, and is based on published price quotations. All fair value measurements are recurring. The carrying values of cash, accounts receivable and accounts payable approximates their fair values due to their short-term nature.

6. Financial Risk and Management Objectives and Policies

The Trusts' objective in managing risk is the creation and protection of unitholder value. Risk is inherent in the Trusts' activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Trusts have investment guidelines that set out their overall business strategies, their tolerance for risk and their general risk management philosophy, as set out in each Trust's offering documents. The Trusts' Manager is responsible for identifying and controlling risks. The Trusts are exposed to market risk (which includes price risk, interest rate risk and currency risk), credit risk, liquidity risk and concentration risk arising from the bullion that they hold. Only certain risks of the Trusts are actively managed by the Manager, as the Trusts are passive investment vehicles. Significant risks that are relevant to the Trusts are discussed below. Refer to the Notes to financial statements – Trust specific information of each Trust for specific risk disclosures.

Price risk

Price risk arises from the possibility that changes in the market price of each Trust's investments, which consist almost entirely of bullion, will result in changes in fair value of such investments.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Trusts do not hedge their exposure to interest rate risk as that risk is minimal.

Sprott Physical Bullion Trusts

Generic Notes to Financial Statements (unaudited) September 30, 2015

Currency risk

Currency risk arises from the possibility that changes in the price of foreign currencies will result in changes in carrying value. Each Trust's assets, substantially all of which consist of an investment in bullion, are priced in U.S. dollars. Some of the Trusts' expenses are payable in Canadian dollars. Therefore, the Trusts are exposed to currency risk, as the value of its liabilities denominated in Canadian dollars will fluctuate due to changes in exchange rates. Most of such liabilities, however, are short term in nature and are not significant in relation to the net assets of the Trusts, and, as such, exposure to foreign exchange risk is limited. The Trusts do not enter into currency hedging transactions.

Credit risk

Credit risk arises from the potential that counterparties will fail to satisfy their obligations as they come due. The Trusts primarily incur credit risk when entering into and settling bullion transactions. It is each Trust's policy to only transact with reputable counterparties. The Manager closely monitors the creditworthiness of the Trusts' counterparties, such as bullion dealers, by reviewing their financial statements when available, regulatory notices and press releases. The Trusts seeks to minimize credit risk relating to unsettled transactions in bullion by only engaging in transactions with bullion dealers with high creditworthiness. The risk of default is considered minimal, as payment for bullion is only made against the receipt of the bullion by the custodian.

Liquidity risk

Liquidity risk is defined as the risk that the Trusts will encounter difficulty in meeting obligations associated with financial liabilities and redemptions. Liquidity risk arises because of the possibility that the Trusts could be required to pay their liabilities earlier than expected. The Trusts are also subject to redemptions for both cash and bullion on a regular basis. The Trusts manage their obligation to redeem units when required to do so and its overall liquidity risk by only allowing for redemptions monthly, which require 15-day advance notice to the Trusts. Each Trust's liquidity risk is minimal, since their primary investment is physical bullion, which trades in a highly liquid market. All of the Trusts' financial liabilities, including due to brokers, accounts payable and management fees payables have maturities of less than three months.

Concentration risk

Each Trust's risk is concentrated in physical bullion.

7. Unitholders' Capital

The Trusts are authorized to issue an unlimited number of redeemable, transferrable Trust Units in one or more classes and series of Units. The Trusts' capital is represented by the issued, redeemable, transferable Trust Units. Quantitative information about the Trusts' capital is provided in their statements of changes in equity. Under the trust agreements of each Trust, Units may be redeemed at the option of the unitholder on a monthly basis for physical bullion or cash. Units redeemed for physical bullion will be entitled to a redemption price equal to 100% of the NAV of the redeemed Units on the last business day of the month in which the redemption request is processed. A unitholder redeeming Units for physical bullion will be responsible for expenses in connection with effecting the redemption and applicable delivery expenses, including the handling of the notice of redemption, the delivery of the physical bullion for Units that are being redeemed and the applicable bullion storage in-and-out fees. Units redeemed for cash will be entitled to a redemption price equal to 95% of the lesser of (i) the volume-weighted average trading price of the Units traded on the NYSE Arca, or, if trading has been suspended on the NYSE Arca, on the TSX for the last five business days of the month in which the redemption request is processed and (ii) the NAV of the redeemed Units as of 4:00 p.m., Eastern Standard time, on the last business day of the month in which the redemption request is processed.

Sprott Physical Bullion Trusts

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When Units are redeemed and cancelled and the cost of such Units is either above or below their stated or assigned value, the unitholders' capital is reduced by an amount equal to the stated or assigned value of the Units. The difference between the redemption price and the stated or assigned values of the Units is allocated to the Unit premiums and reserves account (equal to the 5% reduction to the redemption price for Units redeemed for cash as described above) and the retained earnings account based on the allocated portion attributable to the redemption.

The Trusts' units are classified as equity on the Statements of Financial Position, since the Trusts' units meet the criteria in IAS 32, *Financial Instruments: Presentation* ("IAS 32") for classification as equity.

Net Asset Value

Net Asset Value ("NAV") is defined as a Trust's net assets (fair value of total assets less fair value of total liabilities, excluding all liabilities represented by outstanding Units, if any) calculated using the value of physical gold bullion based on the end-of-day price provided by a widely recognized pricing service.

Capital management

As a result of the ability to issue, repurchase and resell Units of the Trusts, the capital of the Trusts as represented by the Unitholders' capital in the statement of financial position can vary depending on the demand for redemptions and subscriptions to the Trusts. The Trusts are not subject to externally imposed capital requirements and have no legal restrictions on the issue, repurchase or resale of redeemable Units beyond those included in their trust agreements. The Trusts may not issue additional Units except (i) if the net proceeds per Unit to be received by the Trusts are not less than 100% of the most recently calculated NAV immediately prior to, or upon, the determination of the pricing of such issuance or (ii) by way of Unit distribution in connection with an income distribution.

The Trusts' objectives for managing capital are:

- To invest and hold substantially all of its assets in physical bullion; and
- To maintain sufficient liquidity to meet the expenses of each Trust, and to meet redemption requests as they arise.

Refer to "Financial risk management objectives and policies" (Note 6) for the policies and procedures applied by the Trusts in managing their capital.

8. Related Party Disclosures

Management Fees

The Trusts pay the Manager a monthly management fee, calculated and accrued daily and payable monthly in arrears on the last day of each month. Management fees are unique to each Trust and are subject to applicable taxes.

9. Independent Review Committee ("IRC")

In accordance with National Instrument 81-107, Independent Review Committee for Investment Funds ("NI 81-107"), the Manager has established an IRC for a number of funds managed by it, including the Trusts. The mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing certain funds, including the Trusts. The IRC is composed of three individuals, each of whom is independent of the Manager and all funds managed by the Manager, including the Trusts. Each fund subject to IRC oversight pays a share of the IRC member fees, costs and other fees in connection with operation of the IRC. The IRC reports annually to unitholders of the funds subject to its oversight on its activities, as required by NI 81-107.

10. Personnel

The Trusts did not employ any personnel during the period, as its affairs were administered by the personnel of the Manager and/or the Trustee, as applicable.

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11. Events After the Reporting Period

Sprott Asset Management LP (“Sprott”), together with Sprott Physical Gold Trust and Sprott Physical Silver Trust (the “Sprott Physical Trusts”), announced on May 27, 2015 that it has formally commenced its offers (the “Offers”) to acquire all of the outstanding units of Central GoldTrust (“GTU”) and Silver Bullion Trust (“SBT”), respectively, on a Net Asset Value (“NAV”) to NAV exchange basis. The Offers also include a premium to be paid by Sprott and expire at 5:00pm (Toronto time) on November 20, 2015.

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