

2008

**Annual Management Report of Fund Performance  
and  
Annual Financial Statements**

**Tradex EQUITY Fund Limited**

**December 31, 2008**

You may get a copy of the Fund's Simplified Prospectus, Annual Information Form, proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure at your request, and at no cost, by calling Tradex Management Inc. toll-free at **1-800-567-3863**, e-mailing us at **info@tradex.ca** or by writing or visiting us at the address shown below.

These documents and other information about the Fund are also available through our website at **www.tradex.ca** or through the SEDAR website at **www.sedar.com**.

**Tradex Management Inc.**  
**50 O'Connor Street, Suite 920**  
**Ottawa, Ontario**  
**K1P 6L2**

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## TRADEX EQUITY FUND LIMITED STATEMENT OF MANAGEMENT'S RESPONSIBILITY

To our shareholders,

The accompanying Management Report of Fund Performance and Financial Statements have been prepared by Tradex Management Inc., the Manager of **Tradex Equity Fund Limited** and approved by the Manager's and the Fund's Board of Directors. The Fund's Manager is responsible for the information and representations contained in the Management Report of Fund Performance and Financial Statements. The Management Report of Fund Performance in the front section of this document is unaudited, whereas the Financial Statements appearing in the second section are audited.

Tradex Management Inc. maintains appropriate processes to ensure that relevant and reliable financial information is produced. The Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies that management believes are appropriate for the Fund are described in Note 2 to the Financial Statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund, appointed by the shareholders of Tradex Equity Fund Limited. They have audited the Financial Statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements.

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R.C. White  
President and Chief Executive Officer  
Tradex Management Inc.

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A.F. Campbell  
Treasurer and Chief Financial Officer  
Tradex Management Inc.

March 19, 2009



# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

*for the year ended December 31, 2008*

## I. MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objectives and Strategies

The Fund's objective is to achieve long-term capital appreciation by investing primarily in a diversified portfolio of common shares of Canadian companies plus shares of companies in the United States and other countries.

The strategy of the Fund is to build positions in high quality growing companies. The Fund can be aggressive in the sense of stock and sector concentration, and will own a relatively high level of small cap stocks when desirable. Foreign content will be in the range of 20-40% of the total portfolio value at most times.

To maintain adequate portfolio diversification, thus reducing risk, at least five S&P/TSX Composite Index industry sectors will be represented. The Fund will generally be fully invested, but should market conditions temporarily deteriorate, up to 30% of the portfolio could be converted into cash.

### Risk

All mutual funds involve some level of risk. Simply put, risk is the possibility you will lose money or not make money on your investment. As you consider an investment in a mutual fund, consider not just what you hope to gain on the upside, but also what you're prepared to risk on the downside. In this regard, the value of the shares in Tradex Equity Fund Limited is directly related to the market value of the Fund's investment portfolio, which consists of shares of approximately 60 companies.

The values of common stocks vary from day to day, reflecting specific company developments such as announcements of quarterly earnings or changes in company management, by stock market conditions such as changes in interest rates or price/earnings ratios, and by general economic conditions such as inflation rates and foreign exchange rates in those countries where the investments are listed for trading.

Tradex Equity Fund Limited is suitable for investors seeking capital appreciation over the long term, who are not concerned about the day-to-day fluctuations of their investment. It offers a level of diversity that many investors may not be able to achieve on their own.

### Results of Operations

This was an extremely difficult year for most Canadian equity mutual funds, including Tradex Equity Fund Limited, as stock markets recorded their weakest performance since the 1930s. During the year, the S&P/TSX Composite Index declined 35.0% while the U.S. S&P 500 Index finished 2008 down 38.5%. The sequence of events that led to these dramatic drops started approximately 18 months ago when the problems in the U.S. sub-prime mortgage market first came to light. Subsequently, the extent of the "rot" in financial assets held globally by banks and other institutions escalated into an unprecedented crisis of confidence in credit markets that reached a crescendo in November 2008, necessitating various countries to "bail out" or take control of a number of the largest financial institutions in the world. The ultimate fallout from these events is the worldwide recession that we are now witnessing, along with its

accompanying effects. In this environment, an investment in Tradex Equity Fund Limited decreased in value by 38.3% in 2008 and the 10-year average annual compound return was reduced to 1.5%. However, the average annual compound return since the inception of the Fund in 1960 remained at over 9%.

Canadian financial stocks continued to form the "core" of the Fund's investment portfolio in 2008. However, despite the fact that the major Canadian banks weathered the credit crisis much better than their international counterparts, the TSX Financials sub-index was down 38.3% in 2008, which resulted in a significant drag on the Fund's performance. At year-end, 31% of the Fund's total portfolio value was invested in Canadian financial stocks versus 26% at the beginning of the year. This included the four largest positions in the portfolio, Manulife Financial, Canadian Imperial Bank of Commerce, Royal Bank of Canada and Toronto-Dominion Bank, which collectively represented 19% of the Fund's total portfolio value. At year-end the Fund held positions in a total of eleven Canadian financial stocks including positions in all six of the largest Canadian chartered banks. Looking forward, portfolio manager Phillips Hager & North (PH&N) believe financial service stocks offer strong appreciation potential given the magnitude of the declines in 2008 and as the concerted government initiatives are successful in relieving the stress in the global financial system.

As a result of the turmoil in U.S. financial markets, the weighting to foreign stocks was reduced to the 16-18% range in the first quarter and it was held in this range for most of the year, versus a normal range of 20-40%. In the fourth quarter, three U.S. financial stocks were added to the portfolio, which brought the foreign weighting up to 20% at year-end. While the U.S. equity market was very weak in 2008 (S&P 500 Index down 38.5%) the decline in the Canadian dollar, from 100.88 cents U.S. at the beginning of the year to 82.10 cents at year-end, partly offset the magnitude of the foreign losses. At the end of the year there were 11 foreign positions in the portfolio versus 10 at the beginning of the year.

During the first half of the year the TSX Energy and Materials sectors were up 24% and 26%, respectively as commodity prices increased dramatically. As at June 30 these two sectors comprised over 50% of the TSX total weighting while the Fund's weighting to these two sectors stood at 40% of the total portfolio value. However, during the second half of 2008, commodity prices tumbled as the worldwide economy moved into a recession. For the year as a whole the Energy sub-index was down 38% while the Materials sector was down 27% (metals and mining down 68%). These developments had a very negative effect on the overall performance of the Fund in the second half of the year.

Trading activity in 2008 was relatively heavy as portfolio manager PH&N made significant adjustments on a number of fronts. At the end of the year there were 53 companies in the Canadian portion of the portfolio versus 40 at the end of 2007. New positions were established in various sectors including the addition of a number of small and mid cap companies that were viewed as having strong growth potential. However, this sector was hit especially hard in the second half of 2008 as the financial crisis intensified

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE *(continued)*

(the S&P/TSX Small Cap Index was down 48% for the year), thus creating a significant additional headwind to the Fund's overall performance.

A summary of the weighting of the Fund's assets compared to the weighting for the 10 sub-groups in the S&P/TSX Composite Index appears under the heading "Summary of Investment Portfolio". Also, a listing of the entire investment portfolio appears on pages 10 and 11.

In 2008 there was a slight decrease in the number of shares outstanding. However, the Fund's total net asset value decreased from \$117.2 million at the start of the year to \$67.5 million at year-end due the significant downturn in equity prices. The management expense ratio, which is among the lowest for actively managed Canadian equity funds, increased from 1.18% in

2007 to 1.28% in 2008 as the expenses of operating the Fund were amortized over a lower average amount outstanding. At the beginning of the year, the Fund made a 2008 capital gain distribution amounting to 11.53 cents per share while at the end of the year an ordinary dividend of 29.03 cents per share was paid to shareholders.

Looking ahead, PH&N's view is that while stock market valuations are now approaching long-term historical lows in many sectors, the challenging economic and psychological backdrop that we are now in is likely to continue well into 2009. They plan to continue to watch the situation closely, taking advantage of opportunities to buy companies that will benefit from a cyclical recovery once leading indicators start to show signs of a definitive market bottom. In addition to the opportunities in Canada, they maintain a target list of high-quality, growth-oriented U.S.

### II. FINANCIAL HIGHLIGHTS

The following table shows selected key financial information about the Fund and is intended to help you understand the Fund's financial performance for the past five years.

#### The Fund's Net Assets per Share (1) (For the five years ended December 31)

	2008	2007	2006	2005	2004
Net assets per share, beginning of year	\$ 15.13	\$ 16.97	\$ 16.06	\$ 14.03	\$ 12.58
Increase (decrease) from operations:					
Total revenue	\$ 0.32	\$ 0.48	\$ 0.31	\$ 0.25	\$ 0.22
Total expenses	\$ (0.17)	\$ (0.20)	\$ (0.18)	\$ (0.18)	\$ (0.17)
Realized gains (losses) for the year	\$ (0.35)	\$ 0.46	\$ 1.27	\$ 1.84	\$ 0.94
Unrealized gains (losses) for the year	\$ (5.52)	\$ (1.44)	\$ 0.49	\$ 0.32	\$ 0.63
Total increase (decrease) from operations (2)	\$ (5.72)	\$ (0.70)	\$ 1.89	\$ 2.23	\$ 1.62
Distributions to investors:					
From dividends	\$ 0.29	\$ 0.40	\$ 0.21	\$ 0.19	\$ 0.17
From capital gains	\$ 0.12	\$ 0.71	\$ 0.78	\$ —	\$ —
Total Annual Distributions (3)	\$ 0.41	\$ 1.11	\$ 0.99	\$ 0.19	\$ 0.17
Net assets per share, end of year	\$ 8.95	\$ 15.13	\$ 17.01	\$ 16.06	\$ 14.03

(1) This information is derived from the Fund's audited annual financial statements. Starting in 2007, net assets per share represented in the audited financial statements differ from net asset value per share calculated for fund pricing purposes. This reflects the Fund's revised accounting policies adopted in accordance with changes in Canadian generally accepted accounting principles (GAAP) introduced by the Canadian Institute of Chartered Accountants. The net asset value per share for pricing purposes (as opposed to the GAAP net assets per share) was \$15.17 at the beginning of 2008 and \$8.99 as at December 31, 2008. A further explanation of this difference can be found in the Notes to the audited financial statements on pages 11-13.

(2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the year.

(3) Distributions were paid in cash/reinvested in additional shares of the Fund, or both.

Ratios and Supplemental Data	2008	2007	2006	2005	2004
Total net asset value, end of year (000's)	\$ 67,520	\$ 117,229	\$ 131,158	\$ 126,197	\$ 115,003
Weighted average net asset value (000's)	\$ 100,094	\$ 128,999	\$ 125,172	\$ 121,306	\$ 111,710
Number of shares outstanding, end of year (000's)	7,508	7,727	7,709	7,858	8,197
Management expense ratio (1)	1.28%	1.18%	1.19%	1.21%	1.29%
Management expense ratio before waivers or absorptions (1)	1.39%	1.30%	1.27%	1.29%	1.33%
Trading expense ratio (2)	0.30%	0.30%	0.11%	0.08%	0.16%
Portfolio turnover rate (3)	83.84%	72.28%	26.23%	29.14%	50.61%
Net asset value per share, end of year	\$ 8.99	\$ 15.17	\$ 17.01	\$ 16.06	\$ 14.03

(1) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the year and is expressed as an annualized percentage of daily average net asset value during the year.

(2) The trading expense ratio represents to commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the year.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and 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 a fund.

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE (continued)

companies that they hope to add to the portfolio in future quarters once the U.S. investing environment shows signs of sustained stability. They caution, however, that the recession is expected to be deep and enduring. Thus, in order to fully realize the opportunities being presented, sustained discipline and patience will be required on all fronts.

### Recent Developments

For the first time since 2005, in mid-January 2009 there was no capital gains distribution to shareholders of the Fund.

### Management Fees

As the Manager, Tradex Management Inc. is responsible for directing the business, operations and affairs of the Fund. It performs this duty for an annual fee of 0.7% of the Fund's net asset value, calculated and accruing daily. This amounted to \$737,021 in 2008 (including GST) and represents slightly more than 50% of the total expenses paid by the Fund (excluding brokerage fees). Many of the functions involved in operating the Fund are contracted out to leading professional firms in the mutual fund industry in Canada. Therefore, one of the key duties of the Manager is to negotiate and manage these contracts. Tradex Management Inc. is also the principal distributor of the Fund and, as such, is responsible for most of the communications with the Fund's shareholders and potential shareholders. Tradex Management Inc. receives no additional fees or

commissions for being the Fund's principal distributor and pays a trailer fee of 0.3% from its management fee to other mutual fund dealers who distribute the Fund.

Since Tradex Management Inc. operates on an "at cost" basis for the benefit of its investors, when financial conditions permit, it voluntarily rebates and/or waives a portion of the management fees paid to it by the Fund. These rebates/waivers reduce the expenses for the Fund, which in turn, reduce its management expense ratio. In 2008, \$112,510 in expenses were reduced for the Fund through such transactions.

### Other Expenses

The other expenses incurred by the Fund amounted to \$655,077 and were paid to third party suppliers and regulatory authorities. These represent investment advisory fees (paid to Phillips, Hager & North Investment Management Ltd.), administrative fees paid for fund accounting, the registrar function and other related activities (paid to Citigroup Fund Services Canada Inc., FundSERV Inc., The Canada Trust Company and various others suppliers), audit fees (paid to PricewaterhouseCoopers LLP), custodian fees (paid to CIBC Mellon Trust Company) and registration fees and expenses paid to the 13 securities regulatory authorities in Canada. A listing of the various expenses paid by the Fund appears in the audited Statement of Operations on page 8.

## III. PAST PERFORMANCE

The past performance of the Fund is set out in the Year-by-Year Returns and Annual Compound Returns chart and table. All performance returns:

- are calculated as of December 31 of each year;
- assume all dividends and distributions made by the Fund were reinvested without charge to purchase additional shares of the Fund; and
- are not reduced by any income taxes payable by you. You will be taxable on the dividends and distributions of net income even if you have reinvested them to purchase additional shares, unless your investment is held in a registered tax plan.

The past performance of the Fund does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

This bar chart shows the Fund's annual performance in each of the past ten years. The chart shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 for each of the ten years, and how the performance varied from year to year.



### Annual Compound Returns

The following table shows the Fund's annual compound total return for the periods indicated, as of December 31, 2008, compared to the S&P/TSX Composite Total Return Index.

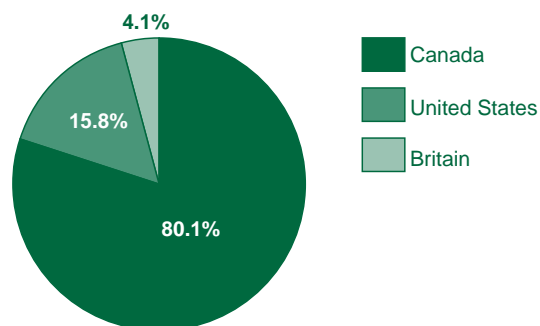
	Past 10 years	Past 5 years	Past 3 years	Past year
Tradex Equity Fund Limited	1.5%	-2.8%	-12.8%	-38.3%
S&P/TSX Composite Total Return Index	5.3%	4.2%	-4.8%	-33.0%

The S&P/TSX Composite Total Return Index is the recognized standard for measuring the overall performance of the Canadian equity market. The Index covers approximately 95% of Canadian equity market capitalization and assumes the reinvestment of all dividends.

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE (continued)

### IV. SUMMARY OF INVESTMENT PORTFOLIO

A summary of the investment portfolio as at December 31, 2008 broken down by the geographic location of the companies in the portfolio is as follows:



A summary of the sector weighting of the Canadian companies in the Fund's investment portfolio along with the weighting of each sector in the S&P/TSX Composite Index as at December 31, 2008 is as follows:

	Weighting of the S&P/TSX Composite Index	Weight of the Canadian portion of the Fund's portfolio
Energy	27.4%	21.3%
Materials	17.6%	10.0%
Industrials	6.1%	10.9%
Consumer Discretionary	4.7%	3.0%
Consumer Staples	3.4%	6.3%
Health Care	0.4%	—
Financials	29.2%	38.1%
Information Technology	3.3%	6.4%
Telecommunication Services	6.0%	4.0%
Utilities	1.9%	—
Total	100.0%	100.0%

The following investments represent the 25 largest holdings of the Fund as of December 31, 2008 shown as a percentage of the Fund's net asset value. The list is of interest only as of the date indicated, as the percentages may have changed, and some or all of the holdings may have been sold and new positions purchased. A quarterly update is available as discussed on the cover page of this document.

Manulife Financial Corporation	5.5%	Potash Corporation of Saskatchewan Inc.	2.1%
Canadian Imperial Bank of Commerce	5.0%	Rogers Communications Inc. "B"	2.1%
Royal Bank of Canada	5.0%	CCL Industries Inc. 'B'	2.0%
The Toronto-Dominion Bank	3.9%	Wyeth (U.S.)	2.0%
Johnson & Johnson (U.S.)	3.7%	GlaxoSmithKline PLC ADR (U.K.)	2.0%
Toromont Industries Limited	3.5%	Canadian National Railway Company	1.9%
EnCana Corporation	3.3%	Cisco Systems Inc. (U.S.)	1.8%
Bank of Montreal	2.9%	Talisman Energy Inc.	1.8%
National Bank of Canada	2.8%	Power Corporation of Canada	1.7%
Research in Motion Limited	2.7%	Microsoft Corporation (U.S.)	1.7%
MacDonald, Dettwiler & Associates Limited	2.4%	Canadian Natural Resources Limited	1.5%
Comcast Corporation 'A' (U.S.)	2.3%	Sub-total – largest 25 holdings	67.9%
Shoppers Drug Mart Corporation	2.2%	Remaining holdings	32.1%
Thomson Reuters PLC (U.K.)	2.1%	Total Net Asset Value	100.0%

## AUDITORS' REPORT TO THE SHAREHOLDERS

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March 19, 2009

### To the Shareholders of Tradex Equity Fund Limited

We have audited the statement of investment portfolio of Tradex Equity Fund Limited as at December 31, 2008, the statements of net assets as at December 31, 2008 and 2007 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 Manager. 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 financial position of Tradex Equity Fund Limited as at December 31, 2008 and 2007 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants, Licensed Public Accountants  
Ottawa, Ontario

## STATEMENTS OF NET ASSETS *December 31*

	2008	2007
<b>Assets</b>		
Investments, at fair value * <i>(Note 2)</i>	\$ 66,742,475	\$ 112,993,333
Cash and short-term investments	654,729	4,722,167
Dividends receivable	218,487	279,632
Receivable for tax reclaims	847	48,613
Subscriptions receivable	28,149	29,148
	<b>67,644,687</b>	118,072,893
<b>Liabilities</b>		
Accounts payable and accrued liabilities	231,274	194,560
Redemptions payable	200,412	401,599
Payable for investments purchased	—	544,833
	<b>431,686</b>	1,140,992
Net assets, representing shareholders' equity	\$ 67,213,001	\$ 116,931,901
Shares issued and outstanding, end of year <i>(Note 6)</i>	7,507,531	7,727,205
<b>Net assets per share <i>(Note 2)</i></b>	<b>\$ 8.95</b>	<b>\$ 15.13</b>
	<b>\$ 89,594,500</b>	<b>\$ 94,276,989</b>

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

Approved by the Board  
of Directors of  
Tradex Equity Fund Limited and  
Tradex Management Inc.



Andrew Campbell  
Director



Karin Zabel  
Director

## STATEMENTS OF OPERATIONS *Year ended December 31*

	2008	2007
<b>Investment Income</b>		
Revenue		
Dividends	\$ 2,430,091	\$ 3,962,459
Less foreign withholding taxes	(38,482)	(116,580)
	2,391,609	3,845,879
Interest	31,169	71,644
Foreign exchange loss	(21,301)	(203,449)
	2,401,477	3,714,074
Expenses <i>(Note 5)</i>		
Management fees	737,021	962,677
Investment advisory fees	235,000	304,999
Administration costs	307,978	283,131
Independent Review Committee	22	18
Audit fees	58,002	53,999
Custodian fees	40,002	51,999
Registration fees and expenses	14,495	14,440
Federal corporate surtax	(422)	4,381
Expense reductions <i>(Note 5)</i>	(112,510)	(154,760)
	1,279,588	1,520,884
<b>Net investment income</b>	<b>1,121,889</b>	<b>2,193,190</b>
<b>Realized and unrealized gain (loss) on investments and transaction costs</b>		
Net realized gain (loss) on sale of investments	(2,322,846)	3,978,853
Change in unrealized depreciation on investments	(41,568,369)	(11,201,855)
Transaction costs <i>(Note 2)</i>	(302,035)	(383,156)
<b>Net loss on investments</b>	<b>(44,193,250)</b>	<b>(7,606,158)</b>
<b>Decrease in net assets from operations</b>	<b>\$ (43,071,361)</b>	<b>\$ (5,412,968)</b>
<b>Decrease per share in net assets from operations <i>(Note 2)</i></b>	<b>\$ (5.72)</b>	<b>\$ (0.70)</b>

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

## STATEMENTS OF CHANGES IN NET ASSETS *Year ended December 31*

	2008	2007
<b>Net assets, beginning of year</b>	<b>\$ 116,931,901</b>	<b>\$ 131,157,652</b>
Change in accounting policy (Note 2)	—	(314,530)
	<b>116,931,901</b>	130,843,122
Add (deduct)		
<b>Operations</b>		
Decrease in net assets from operations	<b>(43,071,361)</b>	(5,412,968)
<b>Distributions</b>		
Distribution to shareholders from investment income	<b>(2,119,596)</b>	(3,012,843)
Distribution to shareholders from realized profit on sale of investments	<b>(888,956)</b>	(5,453,775)
	<b>(3,008,552)</b>	(8,466,618)
<b>Shares</b>		
Proceeds from issue of shares	<b>2,247,066</b>	3,167,043
Reinvestment of distributions	<b>2,888,587</b>	8,192,144
Consideration paid for redemptions of shares	<b>(8,774,640)</b>	(11,390,822)
	<b>(3,638,987)</b>	(31,635)
<b>Net assets, end of year</b>	<b>\$ 67,213,001</b>	<b>\$ 116,931,901</b>

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

## STATEMENT OF INVESTMENT PORTFOLIO *December 31, 2008*

Canadian Common Stocks	Number of shares	Average cost	Fair value	% of total fair value
<b>Energy</b>				
EnCana Corporation	38,500	\$ 777,271	\$ 2,184,875	
Talisman Energy Inc.	100,000	1,807,219	1,214,000	
Canadian Natural Resources Limited	21,100	1,664,289	1,026,937	
Cameco Corporation	45,700	1,911,367	957,415	
Suncor Energy Inc.	36,900	2,140,677	875,268	
Nexen Inc.	40,500	1,283,705	863,460	
TriStar Oil & Gas Limited	72,000	874,800	813,600	
Pason Systems Inc.	57,900	697,082	807,705	
Petro Andina Resources Inc., Class A	94,200	932,292	551,070	
NuVista Energy Limited	64,200	880,429	532,218	
Celtic Exploration Limited	39,900	596,935	491,967	
Prox Energy Limited	35,500	455,371	390,855	
Iteration Energy Limited	175,068	826,819	232,840	
Pacific Rubiales Energy Corporation	102,500	1,137,073	220,375	
Connacher Oil and Gas Limited	167,900	667,030	122,567	
Cirrus Energy Corporation	120,000	546,000	91,200	
Phoenix Coal Inc., Warrants	207,500	53,950	5,188	
		17,252,309	11,381,540	17.0
<b>Materials</b>				
Potash Corporation of Saskatchewan Inc.	15,700	2,582,808	1,405,778	
CCL Industries Inc. 'B'	54,500	2,046,612	1,359,230	
Agrium Inc.	17,700	877,139	733,311	
Methanex Corporation	50,600	1,388,491	690,690	
Gold Wheaton Gold Corporation	1,386,300	1,103,109	346,575	
Polaris Minerals Corporation	211,300	1,692,322	306,385	
Sherritt International Corporation	90,000	1,208,695	279,000	
Eastern Platinum Limited	458,200	809,746	151,206	
Gold Wheaton Gold Corporation, Warrants	693,150	—	58,918	
		11,708,922	5,331,093	8.0
<b>Industrials</b>				
Toromont Industries Limited	102,900	1,630,436	2,356,410	
Canadian National Railway Company	28,300	1,493,801	1,266,142	
Newalta Income Fund	134,100	1,838,538	852,876	
Canadian Pacific Railway Limited	16,900	1,077,937	690,534	
Finning International Inc.	47,600	1,272,034	676,872	
		7,312,746	5,842,834	8.8
<b>Consumer Discretionary</b>				
Astral Media Inc. 'A'	25,700	1,108,955	620,912	
Corus Entertainment Inc. 'B'	43,400	939,829	596,316	
Great Canadian Gaming Corporation	108,800	1,490,253	392,768	
		3,539,037	1,609,996	2.4
<b>Consumer Staples</b>				
Shoppers Drug Mart Corporation	30,600	1,503,332	1,469,718	
The Jean Coutu Group (PJC) Inc. 'A'	123,900	1,162,051	1,014,741	
Saputo Inc.	39,400	1,037,018	869,164	
		3,702,401	3,353,623	5.0
<b>Financials</b>				
Manulife Financial Corporation	178,100	3,101,011	3,697,356	
Canadian Imperial Bank of Commerce	66,000	4,261,388	3,364,020	
Royal Bank of Canada	92,900	2,339,251	3,344,400	
The Toronto-Dominion Bank	60,600	2,493,261	2,631,252	
Bank of Montreal	63,400	3,092,045	1,979,348	
National Bank of Canada	59,300	3,128,139	1,855,497	
Power Corporation of Canada	52,600	1,889,928	1,168,246	
Great-West Lifeco Inc.	36,400	428,787	753,116	
CI Financial Income Fund	50,100	1,135,756	725,448	
Bank of Nova Scotia	18,900	841,963	626,535	
Chesswood Income Fund	148,000	1,126,858	222,000	
		23,838,387	20,367,218	30.5

## STATEMENT OF INVESTMENT PORTFOLIO *December 31, 2008*

Canadian Common Stocks (continued)	Number of shares	Average cost	Fair value	% of total fair value
<b>Information Technology</b>				
Research In Motion Limited	36,700	\$ 2,699,329	\$ 1,815,182	
MacDonald, Dettwiler & Associates Limited	73,400	2,907,110	1,583,238	
Kaboose Inc.	140,900	387,475	49,315	
		5,993,914	3,447,735	5.2
<b>Telecommunication Services</b>				
Rogers Communications Inc. 'B'	37,900	412,997	1,386,382	
BCE Inc.	30,800	1,147,300	771,540	
		1,560,297	2,157,922	3.2
<b>Total Canadian common stocks</b>		<b>74,908,013</b>	<b>53,491,961</b>	<b>80.1</b>
<b>Foreign Common Stocks</b>				
<b>United States</b>				
Johnson & Johnson	33,700	2,293,617	2,455,315	
Comcast Corporation 'A'	75,600	1,577,314	1,532,271	
Wyeth	29,600	1,495,909	1,353,194	
Cisco Systems Inc.	62,100	1,498,694	1,224,592	
Microsoft Corporation	48,800	1,587,101	1,149,075	
Northern Trust Corporation	11,400	777,265	718,875	
State Street Corporation	14,900	776,028	714,219	
The Bank of New York Mellon Corporation	20,000	630,258	691,773	
The Progressive Corporation	36,400	927,641	656,575	
		11,563,827	10,495,889	15.8
<b>Britain</b>				
Thomson Reuters PLC	53,247	1,669,678	1,427,190	
GlaxoSmithKline PLC ADR	29,200	1,617,856	1,327,435	
		3,287,534	2,754,625	4.1
<b>Total foreign common stocks</b>		<b>14,851,361</b>	<b>13,250,514</b>	<b>19.9</b>
Transaction costs		(164,874)	—	
<b>Total portfolio of investments</b>		<b>\$ 89,594,500</b>	<b>\$ 66,742,475</b>	<b>100.0</b>

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

## NOTES TO AUDITED FINANCIAL STATEMENTS *December 31, 2008*

### 1. Background

Tradex Equity Fund Limited ("the Fund") is an incorporated company under the laws of Canada. Tradex Management Inc. is the Manager of Tradex Equity Fund Limited.

### 2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

#### Adoption of new accounting policies –

#### Financial Instruments Disclosure and Presentation

As at January 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation". The new standards replace Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standards increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The previous requirements related to presentation of financial instruments have been carried forward unchanged. The detailed risks of investing in the Fund are disclosed in the Fund's Simplified Prospectus. Refer to Note 3 for disclosure relating to adoption of the new requirements.

#### CICA Handbook Section 1535 – Capital Disclosure

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The disclosure requirements pertaining to Section 1535 are contained in Note 6.

#### Investments

The CICA's Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which applies to fiscal years beginning on or after October 1, 2006, requires that the fair value of financial instruments, which are actively traded, be measured based on the bid price for the security. Prior to that, fair value for GAAP was based on the last traded price for the day, when available. For financial reporting purposes, starting from January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund on a retroactive basis without restatement of prior periods. Accordingly, the opening net assets in the Statement of Changes in Net Assets for the year ended December 31, 2007 has been adjusted.

National Instrument 81-106 ("NI 81-106"), Investment Fund Continuous Disclosure, previously required the daily net asset value of an investment fund to be calculated in accordance with GAAP. The Canadian Securities Administrators (CSA) have issued

amendments to NI 81-106 to replace the previous requirements to calculate the daily net asset value for the purpose of processing shareholder transactions (“Net Asset Value”) in accordance with GAAP and allow investment funds to value their investments using fair value measures as defined in NI 81-106.

The interim relief granted by the CSA to investment funds from complying with Sections 3855 remained in place until amendments to NI 81-106 became effective on September 8, 2008.

The net asset value calculated in accordance with Section 3855 is referred to as “Net Assets” from hereon forward. A comparison between the Fund’s net assets per share for financial reporting (“GAAP Net Assets”) and the Fund’s net asset value per share for purposes other than financial reporting (transactional “Net Asset Value”) appears in Note 7.

Investments are categorized as held for trading in accordance with Section 3855, “Financial Instruments – Recognition and Measurement”. Investments of the Fund that are traded on stock exchanges are valued at the closing bid price (“fair value”) supplied by independent securities pricing services. The value of any investment to which the foregoing principle cannot be applied shall be the fair value thereof determined in such a manner as the Manager from time to time provides.

The difference between the fair value of investments and the cost of the investments is included in change in unrealized appreciation (depreciation) on investments in the Statement of Operations.

**Foreign exchange**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on each valuation day. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the exchange rates prevailing on the respective dates of such transactions.

Realized and unrealized foreign exchange gains (losses) on investments are included in “realized gain (loss) on sale of investments” and “change in unrealized appreciation (depreciation) on investments”, respectively, in the Statement of Operations.

**Accounting estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from these estimates and the difference may be material.

**Investment transactions, investment income, expenses and distributions**

Investment transactions are recorded on the trade date. Realized gains or losses on security transactions are determined on an average cost basis. Interest income and estimated expenses are accrued daily. Dividend income and distributions to shareholders are recorded on the ex-dividend date.

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are recognized in the Statement of Operations. Prior to January 1, 2007 the Fund’s policy had been to add these expenses to the cost of the securities purchased or deducted from the proceeds of sale. Beginning January 1, 2007, the Fund adopted Section 3855 on a retrospective basis without restatement of prior periods. The transitional adjustment for prior periods has been charged against 2007 realized gains and losses from the sale of investments with a corresponding direct offset to change in unrealized appreciation

(depreciation) in value of investments. Adoption of this policy does not impact the daily price of the Fund’s securities for subscription and redemption purposes, nor for the calculation of Net Assets.

**Net assets per share**

“Net assets per share” is based on the total net assets outstanding as at the end of year divided by number of shares outstanding as at that date. The “increase (decrease) per share in net assets from operations” is based on the increase (decrease) in net assets from operations for the year divided by the weighted average number of shares outstanding over the year.

**3. Management of financial risk**

In the normal course of business, the Fund is exposed to a variety of financial risks. The value of investments within the Fund’s portfolio can fluctuate on a daily basis as a result of changes in interest rates, foreign exchange rates, economic conditions, and market and company news related to specific securities within the Fund.

Tradex Equity Fund Limited’s investment objective is to achieve long-term capital appreciation by investing primarily in a diversified portfolio of common shares of Canadian companies plus shares from companies in the United States and other countries. The strategy of the Fund is to build positions in high quality growing companies. The Fund can be aggressive in the sense of stock and sector concentration, and will own a relatively high level of small cap stocks when desirable. To maintain adequate portfolio diversification, thus reducing risk, at least five S&P/TSX Composite Index industry sectors will be represented. Normally, foreign content will be in the range of 20-40% of the total portfolio value (the upper limit on foreign content is 50%).

The Fund’s risk management practice includes the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks on the Fund’s performance by contracting and overseeing professional and experienced portfolio advisors that regularly monitor the Fund’s positions, market events and diversify the investment portfolio within the constraints of the investment guidelines.

**(a) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. Currencies to which the Fund had exposure as at December 31, 2008, are as follows (\$’000):

	Amount	Percentage of Net Assets (%)
U.S. Dollars	11,921	17.7%
British Pounds	1,427	2.1%

As at December 31, 2008, if the Canadian dollar had strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$ 667,000. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

**(b) Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. As at December 31, 2008, the Fund held no debt instruments and therefore did not have any significant exposure to credit risk.

**(c) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when a fund invests in interest-bearing financial instruments. Essentially all of the Fund's financial assets and liabilities are non-interest bearing. Accordingly, the Fund is not subject to any significant risk due to fluctuations in the prevailing levels of market interest rates.

**(d) Other market risk**

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market.

As at December 31, 2008, essentially all of the Fund's net assets were traded on global stock exchanges. If equity prices on global stock exchanges had increased or decreased by 10% as at year-end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately \$6,674,000, respectively. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**(e) Liquidity risk**

Liquidity risk is defined as the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to daily cash redemptions of redeemable shares. The shares of the Fund are issued and redeemed on demand at the then current transactional net asset value per share at the option of the shareholder. Liquidity risk is managed by investing the majority of the Fund's assets (if not all of its assets) in investments that are traded in an active market and can be readily disposed. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity, and has the ability to borrow up to 5% of its net assets for the purpose of funding redemptions.

**4. Taxes**

Goods and services tax (GST) is included in the expense items charged to the Fund.

Tradex Equity Fund Limited qualifies as a mutual fund corporation for federal income tax purposes. The Fund is subject to tax on taxable dividends received from taxable Canadian corporations. This tax is refundable at a rate determined by a formula when taxable dividends are paid.

The Fund is subject to tax on capital gains. However, this tax is refundable if sufficient capital gains are distributed to shareholders either as capital gains dividends or through the redemption of shares. There was a taxable capital gains distribution in 2008 and 2007.

As at December 31, 2008 the Fund had no non-capital losses and \$4,829,899 in capital losses carried forward for income tax purposes. Capital losses may be carried forward indefinitely to be applied against future capital gains.

Ontario Capital tax at a rate of 0.285% is levied against the capital of the corporation, with the first \$15 million in capital being exempt from this tax.

**5. Management expenses**

The Fund retains investment advisory, custodial, professional, management and administrative services. The fees are charged directly to the Fund, as are registration fees and expenses. Tradex

Management Inc. performs the management services for an annual fee of 0.7% of the Fund's net asset value calculated and accruing daily.

Tradex Management Inc. may from time to time voluntarily waive a portion of its management fees and/or absorb all or a portion of the other expenses of the Fund and/or rebate to the Fund a portion of the fees paid to it by the Fund. This reduces the expenses for the Fund, which in turn reduces its management expense ratio. In 2008, \$112,510 in expenses were reduced for the Fund through such transactions (\$ 154,760 in 2007).

**6. Share capitalization**

Tradex Equity Fund Limited is an incorporated company as opposed to a mutual fund trust. The capital of the Fund is represented by issued redeemable shares that have no par value. They are entitled to distributions, if any, and to payment of a proportionate amount based on the Fund's net asset value per share upon redemption. The Fund has no restrictions or specific capital requirements on the subscription and redemption of shares, other than minimum subscription requirements. In accordance with the investment objectives and strategies, and risk management practices outlined in Note 3, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments or short-term borrowings where necessary.

The changes in the number of shares during the last two years ending December 31 were as follows:

	2008	2007
Outstanding, beginning of year	7,727,205	7,709,002
Issued	467,356	706,112
Redeemed	(687,030)	(687,909)
Outstanding, end of year	7,507,531	7,727,205

**7. Comparison of "Net Asset Value per Share" to "Net Assets per Share"**

The reason for the difference between "Net Asset Value per Share" and "Net Assets per Share" relates to the different methods of valuing the Fund's investment portfolio. "Net Asset Value per Share" is based on valuing the Fund's investments at their last traded price for the day on the relevant stock exchange. "Net Assets per Share" is based on valuing the Fund's investments at their closing bid price for the day as supplied by independent securities pricing services. (For a further explanation see Note 2.)

	Dec. 31, 2008	Dec. 31, 2007
Net Asset Value Per Share (\$)	8.99	15.17
Section 3855 Adjustment (\$)	(0.04)	(0.04)
Net Assets Per Share (\$)	8.95	15.13

**8. Future Accounting Change**

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board, on or by January 1, 2011. The Fund will adopt all of the International Financial Reporting Standards in accordance with the AcSB's plan. The Manager has presently determined that there will be no impact to net asset value per share as a result of the changeover to IFRS.

## BOARD OF DIRECTORS AND OFFICERS

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*Treasury Board of Canada (retired)  
Director and Secretary*

**Blair R. Cooper**, *Ottawa, Ont.*

*Tradex Management Inc.  
Senior Vice President, Sales and Marketing*

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*Atomic Energy of Canada Limited (retired)  
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**Roger R. Leclaire**, *Ottawa, Ont.*

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*Tradex Management Inc.  
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Operations and Information Systems*

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*Canadian Tourism Commission  
Director*

## CORPORATE AND SHAREHOLDER INFORMATION

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### MANAGER

**Tradex Management Inc.**

50 O'Connor Street, Suite 920  
Ottawa, Ontario K1P 6L2  
Telephone: 613-233-3394 or 1-800-567-3863  
Fax: 613-233-8191  
e-mail: [info@tradex.ca](mailto:info@tradex.ca)  
web site: [www.tradex.ca](http://www.tradex.ca)



### REGISTRAR

**Citigroup Fund Services Canada Inc.**

2920 Matheson Boulevard East  
Mississauga, Ontario L4W 5J4

### AUDITORS

**PricewaterhouseCoopers LLP**

99 Bank Street, Suite 800  
Ottawa, Ontario K1P 1E4

### INVESTMENT COUNSEL

**Phillips, Hager & North Investment  
Management Ltd.**

200 Burrard Street, 21st Floor  
Vancouver, B.C. V6C 3N5

### LEGAL COUNSEL

**Borden Ladner Gervais LLP**

100 Queen Street, Suite 1100  
Ottawa, Ontario K1P 1J9

### CUSTODIAN

**CIBC Mellon Trust Company**

320 Bay Street  
Toronto, Ontario M5H 4A6