

# Tradex Equity Fund Limited



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



December 31, 2009

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](http://www.sedar.com).

**Tradex Management Inc.**  
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**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.

Blair Cooper  
President and Chief Executive Officer  
Tradex Management Inc.

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

March 18, 2010



# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

*for the year ended December 31, 2009*

## 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 15-35% of the total portfolio value in normal times (the upper limit is 50%).

To maintain adequate portfolio diversification, thus reducing risk, at least five S&P/TSX Composite Index industry sectors will be represented. To reduce currency risk, in normal times a portion of the foreign currency exposure will be hedged into Canadian dollars through derivatives known as forward contracts. 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

The risks of investing in the Fund remain as discussed in the Simplified Prospectus.

The only significant change to the investment objectives and strategies that affected the Fund's overall level of risk in 2009 was the decision to reduce currency risk by adopting the strategy of hedging a portion of the foreign currency exposure into Canadian dollars through forward contracts. Also, portfolio concentration risk was reduced as the total number of stocks in the portfolio increased from 64 at the start of the year to 112 at year-end. On the other hand, risk associated with investing in equities has been heightened by the market and economic events of the past few years. Market risk (including foreign market risk) and currency risk remain the principal risks associated with an investment in the Fund.

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

Equity markets around the world continued to be very volatile in 2009, with markets moving sharply lower during the first few months of the year before staging a dramatic recovery as the year progressed. At its lowest point for the year, reached in early March, the Canadian market was down 16.8% while the U.S. S&P 500 Index was down 26.2%. By the end of the June, however, the S&P/TSX Total Return Index had rebounded to be up 17.6% year-to-date while the U.S. S&P 500 Total Return Index finished the first six months up 3.2% in U.S. dollar terms. During the second half of the year, equity markets continued to improve with the Canadian market closing the year up 35.1% while the U.S. market was up 26.5% in local currency terms. However,

given the strength in the Canadian currency, the U.S. market closed the year up only 8.1% in terms of Canadian dollars. In this overall environment, an investment in Tradex Equity Fund Limited increased in value by 32.6% in 2009.

Canadian financial stocks continued to form the "core" of the Fund's investment portfolio during the year. As the second quarter progressed, however, portfolio manager Phillips, Hager & North (PH&N) took advantage of the strength in this sector by trimming a number of positions and re-deploying the funds elsewhere. As a result, the weighting to Financials declined from 31% of the total portfolio value at the start of the year to 25% at the end of the first half and remained at essentially this level for the remainder of the year. At year-end, five of the Fund's ten largest positions were in this sector, including the Fund's two largest positions, the Royal Bank of Canada and TD Bank, which collectively represented just under 9% of the total portfolio value.

A net of 9 new positions were added to the Energy and Materials sectors during the year, including a number of small-cap stocks. The Fund's combined portfolio weighting to these two sectors increased from 25% at the start of the year to 29% at mid-year, and to 37% at year-end. This includes a number of gold mining stocks that were added to the portfolio as the year progressed and which represented approximately 10% of the total portfolio value at year-end versus approximately 5% at mid-year and less than 1% at the start of the year.

At the beginning of 2009 foreign stocks represented 20% of the total portfolio value. Given the sharp increase in the Canadian dollar in the second quarter and also the fact that the U.S. market had lagged the recovery in the Canadian market, PH&N took the opportunity to increase the Fund's foreign exposure to 26% by the end of June. This was accomplished by increasing the foreign portfolio to 44 individual stocks versus 11 at the start of the year.

The rationale for investing in foreign stocks continues to be based on two key points. First, foreign holdings provide valuable diversification thus reducing the concentration risk inherent in the rather narrow Canadian equity market. Second, it is believed that the Fund's rate of return over the long run will be enhanced by selectively investing in world-class non-Canadian companies in high-growth sectors. However, investing in foreign stocks also exposes the Fund to currency risk (i.e., the risk that the Canadian dollar will appreciate versus foreign currencies). In the third quarter a new program was initiated to reduce currency risk by hedging approximately 50% of the U.S. dollar exposure into Canadian dollars through derivatives known as forward contracts. Thus, a portion of the currency related losses that the Fund would otherwise have experienced during the second half of the year, due to the strength of the Canadian dollar, was eliminated through this program. Going forward, the Fund's neutral strategy will be to hedge 50% of the U.S. currency exposure, while portfolio manager PH&N has the latitude to vary the currency hedge from zero to 100% based on tactical considerations. During the second half of the year, the Fund's foreign exposure drifted down to 22% of the total portfolio value due primarily to the Canadian market out performing the U. S. market in terms of Canadian dollars during this period.

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

A listing of the entire investment portfolio appears on pages 9-11. In addition, 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".

In 2009 there was a slight decrease in the number of shares outstanding. However, the Fund's total net asset value increased from \$67.5 million at the start of the year to \$85.8 million at year-end, although the weighted average amount outstanding declined from 2008 due to the weakness in markets during the last half of 2008 and the early months of 2009. The management expense ratio, which continued to be among the lowest for actively managed Canadian equity funds, increased from 1.28% in 2008 to 1.49% in 2009 as the expenses of operating the Fund were amortized over a lower average amount outstanding and the

fact that no management expense reductions were made during 2009. At the beginning of 2009 there was no capital gains distribution, while at the end of the year an ordinary dividend of 23.52 cents per share was paid to shareholders.

Looking ahead, PH&N's outlook for the equity market remains positive over the medium and long term. They believe valuations for many stocks remain attractive in the context of low inflation, low interest rates, a positive sloping yield curve, and renewed access to both debt and equity capital. As a result, they expect equity prices will continue to improve, albeit at a more modest pace, driven by improved earnings and renewed confidence in equities as an attractive asset class. However, due to the fact that sentiment, confidence and expectations have risen sharply, PH&N believe that selectivity will be a key determinant of success in 2010 and they expect the recent broad advance will

### 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)

	2009	2008	2007	2006	2005
Net assets per share, beginning of year	\$ 8.95	\$ 15.13	\$ 16.97	\$ 16.06	\$ 14.03
Increase (decrease) from operations:					
Total revenue	\$ 0.25	\$ 0.32	\$ 0.48	\$ 0.31	\$ 0.25
Total expenses	\$ (0.15)	\$ (0.17)	\$ (0.20)	\$ (0.18)	\$ (0.18)
Realized gains (losses) for the year	\$ (1.41)	\$ (0.35)	\$ 0.46	\$ 1.27	\$ 1.84
Unrealized gains (losses) for the year	\$ 4.24	\$ (5.52)	\$ (1.44)	\$ 0.49	\$ 0.32
Total increase (decrease) from operations (2)	\$ 2.93	\$ (5.72)	\$ (0.70)	\$ 1.89	\$ 2.23
Distributions to investors:					
From dividends	\$ 0.24	\$ 0.29	\$ 0.40	\$ 0.21	\$ 0.19
From capital gains	\$ —	\$ 0.12	\$ 0.71	\$ 0.78	\$ —
Total Annual Distributions (3)	\$ 0.24	\$ 0.41	\$ 1.11	\$ 0.99	\$ 0.19
Net assets per share, end of year	\$ 11.66	\$ 8.95	\$ 15.13	\$ 17.01	\$ 16.06

(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 \$8.99 at the beginning of 2009 and \$11.69 as at December 31, 2009. A further explanation of this difference can be found in the Notes to the audited financial statements on pages 12-13.

(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	2009	2008	2007	2006	2005
Total net asset value, end of year (000's)	\$ 85,798	\$ 67,520	\$ 117,229	\$ 131,158	\$ 126,197
Weighted average net asset value (000's)	\$ 75,228	\$ 100,094	\$ 128,999	\$ 125,172	\$ 121,306
Number of shares outstanding, end of year (000's)	7,341	7,508	7,727	7,709	7,858
Management expense ratio (1)	1.49%	1.28%	1.18%	1.19%	1.21%
Management expense ratio before waivers or absorptions (1)	1.49%	1.39%	1.30%	1.27%	1.29%
Trading expense ratio (2)	0.28%	0.30%	0.30%	0.11%	0.08%
Portfolio turnover rate (3)	95.21%	83.84%	72.28%	26.23%	29.14%
Net asset value per share, end of year	\$ 11.69	\$ 8.99	\$ 15.17	\$ 17.01	\$ 16.06

(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 total 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)

narrow, as many companies will be unable to deliver earnings improvement which match, or exceed, the high expectations embedded in current valuations. Thus, avoiding “losers” will be as important to overall portfolio performance as picking “winners” as we move forward.

### Recent Developments

For the second year in a row, in mid-January 2010 there was no capital gains distribution to shareholders of the Fund.

### Related Party Transactions and Management Fees

Tradex Management Inc. is the Manager of the Fund and as such 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 \$552,597 in 2009 (including GST) and represents slightly less 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 2009, due to adverse market conditions during the early months of the year, no such rebates/waivers were made to the Fund.

### Other Expenses

The other expenses incurred by the Fund amounted to \$570,533 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, 2009, compared to the S&P/TSX Composite Total Return Index.

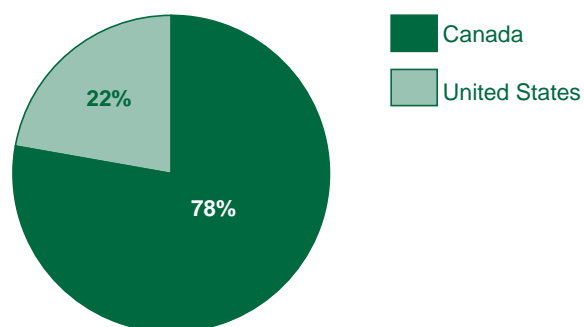
	Past 10 years	Past 5 years	Past 3 years	Past year
Tradex Equity Fund Limited	2.2%	0.4%	-7.0%	32.6%
S&P/TSX Composite Total Return Index	5.6%	7.7%	-0.2%	35.1%

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, 2009 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, 2009 is as follows:

	Weighting of the S&P/TSX Composite Index	Weight of the Canadian portion of the Fund's portfolio
Energy	27.5%	26.3%
Materials	19.4%	21.4%
Industrials	5.6%	6.6%
Consumer Discretionary	4.3%	3.4%
Consumer Staples	2.8%	2.5%
Health Care	0.5%	—
Financials	30.4%	31.1%
Information Technology	3.5%	4.5%
Telecommunication Services	4.3%	3.3%
Utilities	1.7%	0.9%
Total	100.0%	100.0%

The following investments represent the 25 largest holdings of the Fund as of December 31, 2009 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.

Royal Bank of Canada	5.3%	Canadian Imperial Bank of Commerce	1.4%
The Toronto-Dominion Bank	3.6%	Canadian National Railway Company	1.4%
Suncor Energy Inc.	3.4%	Power Corporation of Canada	1.4%
Bank of Nova Scotia	3.3%	Cenovus Energy Inc.	1.2%
Barrick Gold Corporation	2.6%	Eldorado Gold Corporation	1.2%
Research In Motion Limited	2.6%	Teck Resources Limited "B"	1.2%
Canadian Natural Resources Ltd.	2.4%	Nexen Inc.	1.1%
Potash Corp. of Saskatchewan	2.3%	Agrium Inc.	1.1%
Manulife Financial Corporation	2.2%	Cisco Systems Inc. (U.S.)	1.1%
Bank of Montreal	2.1%	National Bank of Canada	1.1%
Goldcorp Inc.	1.9%	Microsoft Corporation (U.S.)	1.1%
EnCana Corporation	1.6%	Sub-total - largest 25 holdings	49.7%
Talisman Energy Inc.	1.6%	Remaining holdings	50.3%
Rogers Communication Inc. "B"	1.5%	Total Net Asset Value	100.0%

## AUDITORS' REPORT TO THE SHAREHOLDERS

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March 18, 2010

### **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, 2009, the statements of net assets as at December 31, 2009 and 2008 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, 2009 and 2008 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*

	2009	2008
<b>Assets</b>		
Investments, at fair value *	\$ 84,860,889	\$ 66,742,475
Cash and short-term investments	484,536	654,729
Receivable for investments sold	316,949	—
Dividends receivable	143,002	218,487
Receivable for tax reclaims	745	847
Subscriptions receivable	620	28,149
	<b>85,806,741</b>	<b>67,644,687</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	231,087	231,274
Redemptions payable	3,000	200,412
	<b>234,087</b>	<b>431,686</b>
Net assets, representing shareholders' equity	\$ 85,572,654	\$ 67,213,001
Shares issued and outstanding, end of year <i>(Note 7)</i>	7,341,464	7,507,531
<b>Net assets per share</b>	<b>\$ 11.66</b>	<b>\$ 8.95</b>
	<b>\$ 76,437,825</b>	<b>\$ 89,594,500</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*

	2009	2008
<b>Investment Income</b>		
Revenue		
Dividends	\$ 1,989,848	\$ 2,430,091
Less foreign withholding taxes	(45,847)	(38,482)
	<b>1,944,001</b>	2,391,609
Foreign exchange loss	(95,311)	(21,301)
Interest	943	31,169
	<b>1,849,633</b>	2,401,477
Expenses <i>(Note 6)</i>		
Management fees	552,597	737,021
Investment advisory fees	188,000	235,000
Administration costs	293,973	307,978
Independent Review Committee	27	22
Audit fees	42,000	58,002
Custodian fees	32,000	40,002
Registration fees and expenses	14,533	14,495
Federal corporate surtax	—	(422)
Expense reductions <i>(Note 6)</i>	—	(112,510)
	<b>1,123,130</b>	1,279,588
<b>Net investment income</b>	<b>726,503</b>	1,121,889
<b>Realized and unrealized gain (loss) on investments and transaction costs</b>		
Net realized loss on sale of investments	(10,214,465)	(2,322,846)
Change in unrealized appreciation (depreciation) on investments and forward contracts	31,275,089	(41,568,369)
Transaction costs	(207,886)	(302,035)
<b>Net gain (loss) on investments</b>	<b>20,852,738</b>	(44,193,250)
<b>Increase (Decrease) in net assets from operations</b>	<b>\$ 21,579,241</b>	<b>\$ (43,071,361)</b>
<b>Increase (Decrease) per share in net assets from operations</b>	<b>\$ 2.93</b>	<b>\$ (5.72)</b>

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

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

	2009	2008
<b>Net assets, beginning of year</b>	<b>\$ 67,213,001</b>	<b>\$ 116,931,901</b>
Add (deduct)		
<b>Operations</b>		
Net increase (decrease) in net assets from operations	21,579,241	(43,071,361)
<b>Distributions</b>		
Distribution to shareholders from investment income	(1,694,364)	(2,119,596)
Distribution to shareholders from realized profit on sale of investments	—	(888,956)
	<b>(1,694,364)</b>	<b>(3,008,552)</b>
<b>Shares</b>		
Proceeds from issue of shares	2,701,981	2,247,066
Reinvestment of distributions	1,644,365	2,888,587
Consideration paid for redemptions of shares	(5,871,570)	(8,774,640)
	<b>(1,525,224)</b>	<b>(3,638,987)</b>
<b>Net assets, end of year</b>	<b>\$ 85,572,654</b>	<b>\$ 67,213,001</b>

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

## STATEMENT OF INVESTMENT PORTFOLIO *December 31, 2009*

Canadian Common Stocks	Number of shares	Average cost	Fair value	% of total fair value
<b>Energy</b>				
Suncor Energy Inc.	79,300	\$ 3,620,729	\$ 2,942,823	
Canadian Natural Resources Limited	27,500	2,045,645	2,080,375	
EnCana Corporation	40,500	489,711	1,379,025	
Talisman Energy Inc.	69,000	1,246,981	1,348,950	
Cenovus Energy Inc.	40,500	445,571	1,069,200	
Nexen Inc.	38,500	1,220,312	967,890	
Pacific Rubiales Energy Corporation	59,000	662,708	908,600	
Canadian Oil Sands Trust	30,100	826,502	895,174	
Cameco Corporation	24,200	1,012,146	817,234	
TransCanada Corporation	21,000	711,507	759,150	
Midway Energy Limited	242,900	303,625	716,555	
Petrobank Energy and Resources Limited	14,000	698,762	714,000	
Enbridge Inc.	14,000	552,544	679,700	
Advantage Oil & Gas Limited	70,000	490,225	479,500	
Daylight Resources Trust	45,000	402,300	457,650	
Bonavista Energy Trust	20,000	357,087	445,400	
Pengrowth Energy Trust	40,000	416,959	404,800	
Wild Stream Exploration Inc.	80,600	362,700	346,580	
		15,866,014	17,412,606	20.5

## STATEMENT OF INVESTMENT PORTFOLIO *December 31, 2009*

<b>Canadian Common Stocks (continued)</b>	<b>Number of shares</b>	<b>Average cost</b>	<b>Fair value</b>	<b>% of total fair value</b>
<b>Materials</b>				
Barrick Gold Corporation	55,000	\$ 2,223,748	\$ 2,275,900	
Potash Corporation of Saskatchewan Inc.	17,200	2,719,098	1,962,692	
Goldcorp Inc.	40,000	1,666,719	1,652,400	
Eldorado Gold Corporation	70,000	822,951	1,038,800	
Teck Resources Limited "B"	28,000	808,798	1,026,200	
Agrium Inc.	14,700	728,471	951,090	
Crocodile Gold Corporation	326,800	428,982	637,260	
Osisko Mining Corporation	71,600	511,221	603,588	
Inmet Mining Corporation	9,500	476,844	602,775	
Red Back Mining Inc.	38,000	438,002	564,300	
Jaguar Mining Inc.	45,000	499,488	525,600	
Centerra Gold Inc.	40,000	410,000	427,200	
Methanex Corporation	19,000	448,595	388,170	
Lundin Mining Corporation	90,000	379,816	383,400	
Yamana Gold Inc.	32,000	440,836	382,080	
Silver Wheaton Corporation	24,000	325,029	378,720	
Thompson Creek Metals Company, Inc.	28,000	345,547	344,400	
		13,674,145	14,144,575	16.6
<b>Industrials</b>				
Canadian National Railway Company	21,200	1,119,031	1,211,368	
Toromont Industries Limited	27,100	429,396	751,754	
Canadian Pacific Railway Limited	10,400	554,353	587,912	
IESI-BFC Limited	30,000	441,920	503,100	
SNC-Lavalin Group Inc.	9,000	452,811	485,280	
WestJet Airlines Limited	35,000	387,508	431,200	
Zungui Haixi Corporation	114,973	373,662	362,165	
		3,758,681	4,332,779	5.1
<b>Consumer Discretionary</b>				
Thomson Reuters Corporation	19,847	622,347	672,813	
Astral Media Inc. 'A'	19,100	824,165	632,210	
Shaw Communications Inc. 'B'	26,000	489,580	561,600	
Cineplex Galaxy Income Fund	21,000	337,280	382,620	
		2,273,372	2,249,243	2.7
<b>Consumer Staples</b>				
The Jean Coutu Group (PJC) Inc. 'A'	64,200	602,128	622,098	
Saputo Inc.	19,200	505,349	590,400	
GLG Life Tech Corporation	53,977	508,887	436,134	
		1,616,364	1,648,632	1.9
<b>Financials</b>				
Royal Bank of Canada	80,500	2,399,848	4,536,175	
The Toronto-Dominion Bank	46,500	1,880,010	3,066,210	
Bank of Nova Scotia	56,700	2,535,363	2,789,073	
Manulife Financial Corporation	97,100	1,766,554	1,874,030	
Bank of Montreal	32,700	1,594,793	1,823,679	
Canadian Imperial Bank of Commerce	18,000	1,162,197	1,223,100	
Power Corporation of Canada	40,000	1,380,009	1,164,800	
National Bank of Canada	15,700	828,192	941,372	
Sun Life Financial Inc.	28,000	832,541	844,760	
Brookfield Asset Management Inc. 'A'	30,500	682,874	711,870	
AGF Management Limited 'B'	40,000	663,200	678,000	
Gluskin Sheff and Associates Inc.	25,000	498,250	513,750	
Genworth MI Canada Inc.	15,000	373,733	404,250	
		16,597,564	20,571,069	24.2
<b>Information Technology</b>				
Research In Motion Limited	31,500	2,271,483	2,234,610	
Open Text Corporation	14,300	558,442	606,892	
Celestica Inc.	13,000	121,952	128,310	
		2,951,877	2,969,812	3.5
<b>Telecommunication Services</b>				
Rogers Communications Inc. 'B'	39,700	501,848	1,292,632	
BCE Inc.	30,800	1,147,300	891,352	
		1,649,148	2,183,984	2.6
<b>Utilities</b>				
Just Energy Income Fund	40,000	529,227	576,000	0.7
<b>Total Canadian common stocks</b>		<b>58,916,392</b>	<b>66,088,700</b>	<b>77.9</b>

## STATEMENT OF INVESTMENT PORTFOLIO *December 31, 2009*

Foreign Common Stocks	Number of shares	Average cost	Fair value	% of total fair value
<b>United States</b>				
Cisco Systems Inc.	37,811	\$ 884,306	\$ 947,214	
Microsoft Corporation	29,254	883,758	933,052	
Sysco Corporation	31,709	844,820	926,079	
The Progressive Corporation	48,795	1,142,179	917,549	
Wal-Mart Stores Inc.	15,195	839,750	849,555	
Zebra Technologies Corporation 'A'	24,185	598,589	717,219	
Burger King Holdings Inc.	35,234	639,836	692,410	
ScanSource, Incorporated	24,054	694,678	672,054	
Dell Inc.	42,198	548,344	633,208	
United Technologies Corporation	8,643	525,868	627,125	
Johnson & Johnson	9,047	598,904	609,009	
Wells Fargo & Company	20,756	581,462	585,123	
Pfizer Inc.	28,008	461,977	533,114	
Commercial Metals Company	31,871	605,716	521,934	
Intel Corporation	24,398	436,437	520,823	
Nabors Industries Inc.	20,726	432,940	474,752	
AFLAC Inc.	9,612	381,424	465,191	
Home Depot Inc.	14,997	397,185	453,532	
Illinois Tool Works Inc.	8,371	331,032	420,284	
Tidewater Inc.	8,058	421,833	403,895	
Carmax Inc.	15,370	252,176	390,024	
Berkshire Hathaway Inc. 'B'	101	329,068	347,187	
XTO Energy Inc.	7,030	331,777	341,996	
General Electric Company	21,372	324,010	338,368	
Heartland Express Inc.	19,556	342,633	311,868	
Nucor Corporation	6,263	319,471	305,731	
Comcast Corporation 'A'	16,732	320,173	295,196	
Motorola Inc.	34,654	240,165	281,035	
FMC Technologies Inc.	4,586	217,414	277,567	
Masco Corporation	18,578	218,337	268,472	
The Mosaic Company	4,166	243,851	260,387	
International Business Machines Corporation	1,836	217,280	251,354	
Brown & Brown Inc.	12,375	264,643	232,701	
Merck & Company Inc.	5,376	156,604	205,333	
Alcoa Inc.	11,457	127,762	193,260	
Winnebago Industries Inc.	14,725	185,413	187,984	
The McGraw-Hill Companies Inc.	5,245	178,133	183,864	
Valero Energy Corporation	10,297	241,918	180,481	
WESCO International Inc.	6,354	174,748	179,588	
Allstate Corporation	5,658	161,074	177,797	
Exxon Mobile Corporation	2,421	191,037	172,574	
J.B. Hunt Transport Services Inc.	4,360	152,619	147,228	
Darden Restaurants Inc.	2,683	107,800	98,432	
AT&T Inc.	3,258	87,954	95,561	
<b>Total foreign common stocks</b>		<b>17,637,098</b>	<b>18,627,110</b>	<b>21.9</b>
Transaction costs		(115,665)	—	
Forward Contracts - Schedule 1		—	145,079	0.2
<b>Total portfolio of investments</b>		<b>\$ 76,437,825</b>	<b>\$ 84,860,889</b>	<b>100.0</b>

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

### Schedule 1 - Forward Contracts December 31, 2009

Currency to Deliver	Purchase Amount	Currency	Amount	Settlement Date	Contract Price	Market Price	Appreciation/(Depreciation)
USD	4,600,000	CAD	4,925,128	15-Jan-10	1.07068	1.04677	109,949
USD	4,200,000	CAD	4,433,100	17-Feb-10	1.05550	1.04713	35,130
							<b>145,079</b>

Counterparts have a credit rating of at least A.

**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**

During 2009 the Fund adopted the amendments to Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, “Financial Instruments—Disclosures” to enhance disclosures about inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3—Inputs that are not based on observable market data.

The classification of the Fund’s assets in accordance with this hierarchy appears in Note 3.

**Investments**

Investments are categorized as held for trading in accordance with CICA Handbook 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”) 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 net asset value calculated in accordance with Section 3855 is referred to as “Net Assets” for purposes of these statements. 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 8.

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

**Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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.

**Forward foreign exchange contracts**

The Fund enters into forward foreign exchange contracts for hedging purposes only. These contracts are limited to the market value of foreign securities owned by the Fund and quoted in that currency or where the underlying exposure is to that currency. Contracts do not exceed three years duration. On a daily basis, the value of these contracts is the gain or loss that would be realized if the positions were to be closed out. This is recorded in “change in unrealized appreciation (depreciation) on investments”. Upon closing of the contracts, the accumulated gains or losses are reported in “Net realized gain (loss) on sale of 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 and forward contracts”, respectively in the Statement of Operations.

**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.

**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. Classification of Financial Instruments**

The classification of the Fund’s financial instruments within the fair value hierarchy as at December 31, 2009 is as follows:

Level 1 Assets – \$84,715,810 consisting of equities that trade in an active market on a recognized stock exchange and \$484,536 in cash.

Level 2 Assets – forward foreign exchange contracts with a net unrealized appreciation of \$145,079, representing their fair value.

There were no transfers between levels during the year ended December 31, 2009.

**4. 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. To maintain adequate portfolio diversification, thus reducing concentration risk, at least five S&P/TSX Composite Index industry sectors will be represented. Normally, foreign content will be in the range of 15-35% 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. To partially limit currency risk, the Fund has entered into commitments in the form of foreign exchange forward contracts for the sale of U.S. dollars (note 3). The purpose of these contracts is to partially preserve the fair value of Fund assets by offsetting the impact of increases in the Canadian dollar relative to the U.S. dollar (the underlying foreign currency exposure). In the case of a decrease in the Canadian dollar relative to the U.S. dollar foreign exchange forward contracts in place decrease in value while the relative value of the U.S. funds increase.

## NOTES TO AUDITED FINANCIAL STATEMENTS *December 31, 2009 (cont'd)*

The Fund's net foreign currency exposure in Canadian dollars, after giving effect to the notional value of foreign currency forward contracts, at December 31, 2009 and 2008, is as follows (\$'000):

	Foreign Currency Exposure	Notional value of foreign exchange forward contracts	Net foreign currency exposure
2009 U.S. Dollars	18,893	9,213	9,680
2008 U.S. Dollars	11,921	—	11,921
2008 U.K. Pounds	1,427	—	1,427

As at December 31, 2009 if the Canadian dollar had strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, net of foreign currency hedges, by approximately \$484,000 (\$667,000 in 2008). 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 counterparty to a financial contract will fail to discharge its obligation in accordance with agreed-upon terms. The Fund is subject to credit risk arising from foreign currency hedging activities. This risk is managed by entering into contracts with creditworthy counterparties subject to minimum credit-rating requirements and by setting limits on the amount of exposure.

### (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. The majority 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, 2009, almost 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 the year-end, with all other factors remaining constant, net assets could possibly have increased or decreased by approximately \$8,472,000, respectively (\$6,674,000 in 2008). 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.

### 5. Taxes

Goods and services tax (GST) is included in the relevant 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 but not in 2009.

As at December 31, 2009, the Fund had \$1,217,284 in non-capital losses expiring in 2029 and \$670,848 expiring in 2030 and \$12,715,488 in capital losses carried forward for income tax purposes. Capital losses may be carried forward indefinitely to be applied against future capital gains.

### 6. 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 2009 there was no expense reduction through such transactions (\$112,510 in 2008).

### 7. 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. 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:

	2009	2008
Outstanding, beginning of year	7,507,531	7,727,205
Issued	407,416	467,356
Redeemed	(573,482)	(687,030)
Outstanding, end of year	7,341,464	7,507,531

### 8. 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.

	Dec. 31, 2009	Dec. 31, 2008
Net Asset Value Per Share (\$)	11.69	8.99
Section 3855 Adjustment (\$)	(0.03)	(0.04)
Net Assets Per Share (\$)	11.66	8.95

### 9. Future accounting change

Effective January 1, 2011 the Fund will adopt International Financial Reporting Standards (IFRS) for purposes of financial reporting. The Manager does not expect that net assets per share will be impacted from the changeover to IFRS.

## BOARD OF DIRECTORS AND OFFICERS

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**Andrew F. Campbell, Ottawa, Ont.**

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Director and Treasurer*

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

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*Tradex Management Inc.  
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**Karin Zabel CA, Ottawa, Ont.**

*Consultant  
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