

2010

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

**Tradex BOND Fund**

**June 30, 2010**

You may get a copy of the Fund's Simplified Prospectus, Annual Information Form, 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**



# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

for the six months ending June 30, 2010

## I. MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Results of Operations

An investment in Tradex Bond Fund increased in value by 3.5% during the first half of 2010 while it has increased by 5.9% over the past year.

During the first quarter the Bank of Canada continued to maintain its overnight policy interest rate target at an historically low 25 basis points and reiterated its conditional commitment to hold the target at that level until the end of the second quarter. However, given the strong performance of the Canadian economy, the conditional commitment was removed in April, thus signaling that the Bank would begin raising its policy rate sooner. In line with this signal, the Bank raised its target by one-quarter of a percentage point on June 1. However, in its press release, it underscored that the global economic recovery is proceeding at an increasingly uneven pace across countries and that in most advanced economies the recovery remains heavily dependent on the extremely high level of monetary and fiscal stimulus. Thus, the tone of the press release was much less “hawkish” with respect to further rate increases than had been expected by market participants. Meanwhile, throughout the entire period the U.S. Federal Reserve maintained its overnight target rate range at 0 to 1/4 per cent and reiterated its view that economic conditions in the U.S. are likely to warrant exceptionally low policy rate levels for an extended period.

In the first quarter, with the market expecting a steady pace of administered interest rate increases in the coming months, yields on 6-month and longer treasury bills and short-term Government of Canada bonds increased by roughly 25 basis points. At the same time, yields on longer-term bonds were essentially unchanged based on the belief that the rate of inflation will remain subdued. During the second quarter, however, the mood in financial markets turned decidedly negative. The change in market tone started with the debt problems facing Greece and a number of other Euro zone countries. As the period progressed concerns increased on a number of fronts, including expectations for slower growth in China, the lack of a rebound in U.S. employment and the U.S. housing market, and forecasts of negative effects on the global economy from the removal of fiscal stimulus. The increasingly unsettled tone led to a sharp decline in equity markets, but also to a strong rally in “safe haven” Government of Canada bonds, where yields declined in the range of 30-60 basis points over the quarter. Thus, yields on Government of Canada bonds ended the first half of 2010 considerably lower than at the end of 2009, as seen in the following table:

Term to Maturity	Yield Dec. 31, 2009	Yield Mar. 31, 2010	Yield June 30, 2010
2 years	1.47%	1.73%	1.39%
3 years	1.92%	2.03%	1.75%
5 years	2.77%	2.90%	2.32%
10 years	3.61%	3.56%	3.08%
30 years	4.08%	4.07%	3.65%

Source: Bank of Canada. Mid-market yields on benchmark issues.

Also of note is that interest rate spreads between corporate bonds and Government of Canada bonds (credit spreads) continued to narrow in the first quarter, reflecting a further improvement in the tone of credit markets generally, as well as increased confidence in the future prospects for corporate Canada. However, they widened somewhat during the second quarter reflecting the increased uncertainty in credit markets, as well as the “flight to quality premium” placed on Government of Canada bonds.

During the period there was very little change in the Fund’s asset allocation among the categories of bond issuers as shown in the table below. However, the Fund’s investment guidelines were changed during the period to allow the Fund to invest up to 50% of the total portfolio value in corporate bonds with a credit rating of “BBB” or better.

	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010
Government of Canada	32%	32%	33%
Provincial/Municipal Governments	27%	28%	28%
Corporations	41%	40%	39%
Total	100%	100%	100%

At the end of the first half of 2010, the portfolio consisted of 55 individual bond issues, including 30 corporate issues. The relatively large number of issues in the corporate portion of the portfolio further controls risk. The modified duration of the portfolio (a measure of portfolio term to maturity and sensitivity to interest rate changes) at the end of the period was 6.1 years compared to 6.2 years for the DEX Universe Index.

Quarterly distributions of 9.05 cents per unit and 7.89 cents per unit were made at the end of March and June, respectively. As at June 30, 2010, the Net Asset Value of the Fund stood at \$10.05 million compared to \$9.8 million at the end of 2009.

### 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 0.6% of the Fund’s net asset value, calculated and accruing daily. This amounted to \$30,988 in the first half of 2010 (including GST) and represents slightly less than 40% of the total expenses paid by the Fund. 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 unitholders and potential unitholders. 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.

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE (continued)

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 the second half of 2009, \$21,000 in expenses were reduced for the Fund through such transactions. It is anticipated that a rebate will be made in the second half of 2010 although it is not possible to estimate the amount at this time.

### Other Expenses

The other expenses incurred by the Fund in the first six months of 2010 amounted to \$50,583 and were paid to third party suppliers and regulatory authorities. These represent investment advisory fees (paid to TD Asset Management Inc.), 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 other suppliers), audit fees (payable 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 Statement of Operations.

## 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 and one-half years.

### The Fund’s Net Assets per Unit (1)

For the six month period ending June 30, 2010 and the five annual periods ending December 31, 2009, 2008, 2007, 2006, 2005.

	2010	2009	2008	2007	2006	2005
Net asset per unit, beginning of period	\$ 10.22	\$ 10.17	\$ 9.99	\$ 10.15	\$ 10.31	\$ 10.22
Increase (decrease) from operations:						
Total revenue	\$ 0.24	\$ 0.48	\$ 0.47	\$ 0.52	\$ 0.55	\$ 0.55
Total expenses	\$ (0.08)	\$ (0.16)	\$ (0.12)	\$ (0.11)	\$ (0.12)	\$ (0.13)
Realized gains (losses) for the period	\$ 0.02	\$ 0.04	\$ 0.04	\$ (0.14)	\$ (0.04)	\$ 0.17
Unrealized gains (losses) for the period	\$ 0.17	\$ 0.02	\$ 0.14	\$ (0.02)	\$ (0.12)	\$ (0.07)
Total increase from operations (2)	\$ 0.35	\$ 0.38	\$ 0.53	\$ 0.25	\$ 0.27	\$ 0.52
Distributions:						
From investment income	\$ 0.17	\$ 0.33	\$ 0.36	\$ 0.42	\$ 0.43	\$ 0.43
Total Distributions (3)	\$ 0.17	\$ 0.33	\$ 0.36	\$ 0.42	\$ 0.43	\$ 0.43
Net asset per unit, end of period	\$ 10.41	\$ 10.22	\$ 10.17	\$ 9.99	\$ 10.15	\$ 10.31

(1) The information for 2005-2009 is derived from the Fund’s audited annual financial statements.

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

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

Ratios and Supplemental Data	2010	2009	2008	2007	2006	2005
Total net asset value, end of period (000’s)	\$ 10,053	\$ 9,805	\$ 9,492	\$ 9,880	\$ 10,416	\$ 10,990
Weighted average net asset value (000’s)	\$ 9,920	\$ 9,797	\$ 9,595	\$ 9,922	\$ 10,541	\$ 11,262
Number of units outstanding, end of period (000’s)	966	959	934	989	1,026	1,066
Management expense ratio (1)	1.66%	1.47%	1.18%	1.07%	1.22%	1.28%
Management expense ratio before waivers or absorptions (1)	1.66%	1.69%	1.60%	1.57%	1.64%	1.58%
Portfolio turnover rate (2)	14.34%	32.94%	53.19%	84.36%	42.32%	109.37%
Net asset value per unit, end of period	\$ 10.41	\$ 10.22	\$ 10.17	\$ 9.99	\$ 10.15	\$ 10.31

(1) Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of daily average net asset value during the period. Any expense waivers or absorptions are made in the second half of the year.

(2) 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 period. The higher the fund’s portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and performance of a fund.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE (continued)

## III. PAST PERFORMANCE

### General

The Fund's past performance assumes all distributions made by the Fund in the periods shown were used to purchase additional units of the Fund. If you hold the Fund outside a registered plan, you will be taxed on these distributions. Distributions of income the Fund earns and capital gains it realizes are taxable in the year received whether received in cash or reinvested in additional units. The performance information does not take into account any sales, redemption or other optional charges that, if applicable, would reduce the returns or performance. Please remember, the Fund's performance in the past does not indicate how it will perform in the future.

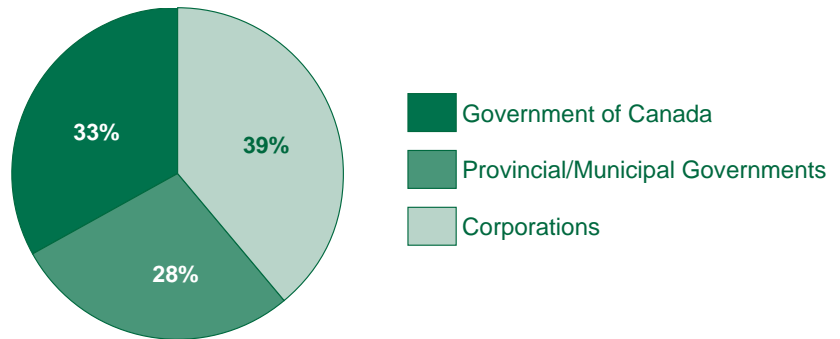
### Year-by-year Returns

This chart shows the Fund's annual performance for each of the past ten years ending December 31, 2009 plus the performance for the six-month period ending June 30, 2010. The chart shows in percentage terms how much an investment made on the first day of the period would have increased or decreased by the last day of the period and how the performance has varied from period to period.



## IV. SUMMARY OF INVESTMENT PORTFOLIO

A summary of the investment portfolio as at June 30, 2010 broken down by the category of issuer is indicated in the pie chart on the right.



The following investments represent the 25 largest holdings of the Fund as of June 30, 2010 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.

Farm Credit Canada, 4.55%, April 12, 2021	12.9%	Ontario Infrastructure Projects Corporation, 4.70%, June 1, 2037	2.2%
Government of Canada, 4.0%, June 1, 2041	5.9%	Sun Life Financial Inc., 5.12%, June 26, 2018	2.1%
Canada Mortgage and Housing Corporation, 4.35%, February 1, 2017	5.5%	Province of British Columbia, 5.60%, June 1, 2018	2.1%
Alberta Capital Finance Authority, 4.65%, June 15, 2017	5.0%	Great-West Lifeco Inc., Variable rate, August 10, 2015	2.0%
OMERS Realty Corporation, 5.48%, December 31, 2012	5.0%	Canadian Utilities Limited, 7.05%, June 1, 2011	1.8%
OMERS Realty Corporation, 4.74%, June 4, 2018	4.7%	Hydro One Inc., 5.77%, November 15, 2012	1.6%
Province of British Columbia, 4.70%, December 1, 2017	4.2%	Canada Mortgage & Housing Corporation, 5.50%, June 1, 2012	1.4%
Province of British Columbia, 4.10%, December 18, 2019	4.1%	Score Trust Credit Card Receivables, 4.949%, February 20, 2014	1.3%
Alberta Capital Finance Authority, 4.35%, June 15, 2016	3.8%	Royal Bank of Canada, 5.95%, June 18, 2014	1.2%
Scotia Bank Capital Trust, 6.282%, June 30, 2013	2.9%	GE Capital Canada Funding Company, 5.15%, June 6, 2013	1.2%
Manulife Financial Corporation, 5.161%, June 26, 2015	2.8%	Business Development Bank of Canada, 4.35%, February 28, 2022	1.1%
Farm Credit Canada, 4.60%, June 1, 2021	2.6%	Sub-total – largest 25 holdings	82.1%
Ontario School Boards Financing Corporation, 6.25%, October 19, 2016	2.4%	Remaining holdings	17.9%
Consumers' Waterheater Operating Trust, 6.75%, April 30, 2014	2.3%	Total Net Asset Value	100.0%



## INTERIM FINANCIAL STATEMENTS for the six months ending June 30, 2010

### THE AUDITORS OF THE FUND HAVE NOT REVIEWED THESE FINANCIAL STATEMENTS.

Tradex Management Inc., the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice. The next report on the Fund will contain annual audited financial information as at December 31, 2010.

### STATEMENTS OF NET ASSETS *June 30, 2010 (Unaudited) and December 31, 2009*

	2010	2009
<b>Assets</b>		
Investments, at fair value *	\$ 9,865,867	\$ 9,739,558
Cash and short-term investments	103,847	40,653
Subscriptions receivable	—	—
Accrued interest	92,030	91,799
	<b>10,061,744</b>	<b>9,872,010</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	8,845	30,578
Payable for investment purchased	—	36,136
Redemptions payable	—	—
	<b>8,845</b>	<b>66,714</b>
Net assets, representing unitholders' equity	\$ 10,052,899	\$ 9,805,296
Units issued and outstanding, end of period <i>(Note 7)</i>	966,149	959,254
<b>Net assets per unit</b>	<b>\$ 10.41</b>	<b>\$ 10.22</b>
* Investments at cost	\$ 9,476,996	\$ 9,517,805

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

Approved by the Board  
of Directors of  
Tradex Management Inc.,  
Trustee for Tradex Bond Fund

Andrew Campbell  
Director

Karin Zabel  
Director

## STATEMENTS OF OPERATIONS *(Unaudited)*

	Six months ending June 30	
	2010	2009
<b>Investment Income</b>		
Revenue		
Interest	\$ 231,819	\$ 224,518
	<b>231,819</b>	224,518
Expenses <i>(Note 6)</i>		
Management fees	30,988	30,341
Investment advisory fees	12,397	11,873
Administration costs	22,316	19,228
Independent Review Committee	—	—
Audit fees	6,447	6,107
Custodian fees	1,984	1,828
Registration fees and expenses	7,439	7,366
Expense reductions <i>(Note 6)</i>	—	—
	<b>81,571</b>	76,743
<b>Net investment income</b>	<b>150,248</b>	147,775
<b>Realized and unrealized gain (loss) on sale of investments</b>		
Net realized gain (loss) on investments	20,316	(4,927)
Change in unrealized appreciation (depreciation) on investments	167,118	(3,074)
<b>Net gain (loss) on investments</b>	<b>187,434</b>	(8,001)
<b>Increase in net assets from operations</b>	<b>\$ 337,682</b>	\$ 139,774
<b>Increase per unit in net assets from operations</b>	<b>\$ 0.35</b>	\$ 0.15

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

## STATEMENTS OF CHANGES IN NET ASSETS *(Unaudited)*

	Six months ending June 30	
	2010	2009
<b>Net assets, beginning of period</b>	\$ 9,805,296	\$ 9,492,412
Add (deduct)		
<b>Operations</b>		
Net increase in net assets from operations	337,682	139,774
<b>Distributions</b>		
Distributions to unitholders from investment income	(162,741)	(160,216)
	174,941	(20,442)
<b>Units</b>		
Proceeds from issue of units	304,426	543,890
Reinvestment of distributions	162,436	86,990
Consideration paid for redemptions of units	(394,200)	(483,032)
	72,662	147,848
<b>Net assets, end of period</b>	\$ 10,052,899	\$ 9,619,818

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

## STATEMENT OF INVESTMENT PORTFOLIO *(Unaudited) June 30, 2010*

Bonds	Par value	Average cost	Fair value	% of total Fair value
<b>Federal</b>				
Business Development Bank of Canada, 4.35%, February 28, 2022	100,000	\$ 96,760	\$ 106,729	
Canada Housing Trust, 2.70%, December 15, 2013	65,000	65,355	65,827	
Canada Housing Trust, 3.95%, June 15, 2013	100,000	99,890	105,193	
Canada Housing Trust, 4.00%, June 15, 2012	65,000	67,366	67,991	
Canada Housing Trust, 4.55%, December 15, 2012	50,000	52,050	53,190	
Canada Mortgage & Housing Corporation, 4.35%, February 1, 2017	507,000	496,303	545,441	
Canada Mortgage & Housing Corporation, 5.50%, June 1, 2012	129,000	137,733	138,456	
Farm Credit Canada, 4.55%, April 12, 2021	1,187,000	1,187,956	1,287,196	
Farm Credit Canada, 4.60%, June 1, 2021	242,000	241,980	263,499	
Government of Canada, 3.50%, June 1, 2020	50,000	50,295	51,770	
Government of Canada, 4.00%, June 1, 2041	548,000	561,309	586,815	
		3,056,997	3,272,107	33.2
<b>Provincial/Municipal</b>				
Alberta Capital Finance, 4.35%, June 15, 2016	355,000	350,713	377,404	
Alberta Capital Finance, 4.65%, June 15, 2017	462,000	461,173	497,024	
Hydro-Quebec, 5.00%, February 15, 2045	100,000	104,342	105,667	
Ontario Infrastructure, 4.70%, June 1, 2037	232,000	227,627	224,154	
Ontario School Boards Financing Coporation, 6.25%, October 19, 2016	210,000	239,365	239,375	
Ontario School Boards Financing Coporation, 6.30%, September 22, 2010	50,000	53,150	50,568	
Province of British Columbia, 4.10%, December 18, 2019	400,000	397,981	408,044	
Province of British Columbia, 4.70%, December 1, 2017	392,000	401,407	421,670	
Province of British Columbia, 4.70%, June 18, 2037	20,000	19,794	20,595	
Province of British Columbia, 5.60%, June 1, 2018	180,000	198,144	204,581	
Province of New Brunswick, 5.8%, December 7, 2011	20,000	20,914	20,929	
Province of Ontario, 4.20%, June 2, 2020	80,000	79,225	81,387	
Province of Ontario, 4.20%, March 8, 2018	100,000	101,950	103,540	
Province of Saskatchewan, 5.25%, December 3, 2012	2,000	2,116	2,158	
		2,657,901	2,757,096	27.9
<b>Corporate</b>				
Bank of Montreal, 5.04%, September 4, 2012	75,000	79,400	79,495	
Bank of Montreal, Variable rate, April 21, 2021	75,000	75,014	79,418	
Bank of Nova Scotia, 4.94%, April 15, 2019	50,000	51,570	52,659	
Bank of Nova Scotia, 5.00%, September 13, 2010	45,000	45,009	45,349	
BMO Capital Trust, 6.685%, December 31, 2011	23,000	25,767	24,415	
BMO Capital Trust, Convertible, 6.647%, December 31, 2010	100,000	109,100	102,334	
Borealis Energy Source, 6.27%, May 3, 2011	4,000	4,380	4,142	
Canada Life Capital Trust, 7.529%, June 30, 2032	5,000	5,153	5,901	
Canadian Imperial Bank of Commerce, Variable Rate, June 6, 2018	55,000	57,629	58,149	
Clarica Life Insurance Company, 6.65%, October 12, 2015	13,000	14,203	13,176	
Consumers Waterheater, 6.75%, April 30, 2014	225,000	233,852	233,471	
Canadian Utilities Limited, 7.05%, June 1, 2011	175,000	190,960	183,475	
GE Capital Canada Funding Company, 5.15%, June 6, 2013	110,000	111,475	115,953	
Glacier Credit Card Trust, 4.187%, November 19, 2010	52,000	53,560	52,557	
Great-West Lifeco Inc. variable rate, August 10, 2015	200,000	209,820	201,036	
Honda Canada Finance Inc., 4.727%, May 05, 2011	85,000	88,018	87,073	
HSBC Canada Asset Trust, 7.78%, December 31, 2010	55,000	59,758	56,558	
Hydro One Inc., 5.77%, November 15, 2012	150,000	160,050	161,706	
Manulife Financial Capital Trust, 6.70%, June 30, 2012	28,000	28,189	30,068	
Manulife Financial Corporation, 5.161%, June 26, 2015	260,000	260,000	277,958	
Master Credit Card Trust, 5.237%, May 21, 2013	50,000	51,272	53,537	
OMERS Realty Corporation, 4.74%, June 04, 2018	450,000	442,223	470,827	
OMERS Realty Corporation, 5.48%, December 31, 2012	460,000	477,321	495,392	

## STATEMENT OF INVESTMENT PORTFOLIO *(Unaudited) June 30, 2010*

<b>Bonds - Corporate (continued)</b>	<b>Par value</b>	<b>Average cost</b>	<b>Fair value</b>	<b>% of total Fair value</b>
Royal Bank of Canada, 4.71%, December 22, 2014	65,000	\$ 69,856	\$ 69,233	
Royal Bank of Canada, 5.95%, June 18, 2014	112,000	119,664	121,687	
Score Trust Credit Card Receivables, 4.949%, February 20, 2014	120,000	122,690	124,998	
Scotia Bank Capital Trust II, 6.282%, December 29, 2049	262,000	276,584	284,398	
Scotia Bank Capital Trust, 6.626%, June 30, 2052	41,000	41,160	44,085	
Sun Life Cap Trust, 6.865%, December 31, 2049	92,000	98,483	97,152	
Sun Life Financial Inc., 5.12%, June 26, 2018	200,000	199,938	210,462	
		3,762,098	3,836,664	38.9
Total bonds		9,476,996	9,865,867	100.0
<b>Total portfolio of investments</b>		<b>\$ 9,476,996</b>	<b>\$ 9,865,867</b>	<b>100.0</b>

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

## 1. **Background**

Tradex Bond Fund (“the Fund”) is an unincorporated trust formed under the laws of the Province of Ontario. Tradex Management Inc. is the Manager and the Trustee of Tradex Bond Fund.

## 2. **Summary of significant accounting policies**

The 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 recorded at the closing bid price (“fair value”) provided by independent security pricing services.

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

### **Net assets per unit**

“Net assets per unit” is based on the total net assets outstanding as at the end of year divided by the number of units outstanding as at that date. The “increase (decrease) per unit 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 units outstanding over the year.

## 3. **Classification of Financial Instruments**

The classification of the Fund’s financial instruments within the fair value hierarchy as at June 30, 2010 is as follows:

Level 1 Assets – \$103,847 in cash.

Level 2 Assets – \$9,865,867 consisting of bond issues that trade in the Canadian bond market.

There were no transfers between levels during the period ended June 30, 2010.

## 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, economic conditions, and market and company news related to specific securities within the Fund.

Tradex Bond Fund’s investment objective is to achieve a combination of interest income and long-term capital preservation by investing in a diversified portfolio of Government of Canada, provincial government, municipal government and investment grade corporate bonds. Risk is reduced through investment in Government of Canada bonds and provincial government bonds. No part of the portfolio will be invested in foreign bonds (i.e., bonds issued in a jurisdiction other than Canada) or in derivatives. To avoid risks related to variations in the value of the Canadian dollar, only bonds denominated in Canadian currency will be in the portfolio.

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. The Fund did not have exposure to currency risk as it invested only in Canadian securities.

### **(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 June 30, 2010 and December 31, 2009 the Fund’s credit risk exposure grouped by credit ratings is listed in the following table (for a listing by the type of issuer see the Statement of Investment Portfolio):

Credit Rating	As a Percentage of Net Investments	
	2010	2009
AAA	65.2%	66.7%
AA	12.3%	15.5%
A	22.5%	17.8%

**(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 fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

As at June 30, 2010 and December 31, 2009, the Fund’s exposure to debt instruments by maturity was as follows:

Maturity Date	As a Percentage of Net Investments	
	2010	2009
Less than 3 year	26.6%	22.0%
3-5 years	12.3%	21.5%
5-10 years	34.9%	30.2%
Greater than 10 years	26.2%	26.3%

As at June 30, 2010, if the prevailing interest rates had been raised or lowered by 0.25%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets could possibly have decreased or increased, respectively, by approximately 1.53% or approximately \$153,000 (December 31, 2009 – \$146,000). The Fund’s interest rate sensitivity was based, portfolio weighted, on duration. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**(d) 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 units. The units of the Fund are issued and redeemed on demand at the then current net asset value per unit at the option of the unitholder. Liquidity risk is managed by investing the majority (if not all) of the Fund’s 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.

**(e) 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, credit 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. The Fund’s significant market risk exposures have been discussed in previous sections. The Fund did not have any significant other market risk that the Manager is aware of.

**5. Taxes**

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

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada) and distributes all of its net taxable income with the intent to not be subject to income tax.

As at December 31, 2009, the Fund had no non-capital losses and \$954,812 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 0.6% 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 the second half of 2009, \$21,000 in expenses were reduced for the fund through such transactions.

**7. Units capitalization**

The capital of the Fund is represented by issued redeemable units 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 unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscription and redemption of units, other than minimum subscription requirements. In accordance with the investment objectives and strategies, and risk management practices outlined in Note 4, 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 units during the last two years ending June 30 were as follows:

	2010	2009
Outstanding, beginning of year	959,254	933,645
Issued	45,286	114,888
Redeemed	(39,391)	(89,279)
Outstanding, end of year	966,149	959,254

**8. Future accounting change**

Effective January 1, 2011 or January 1, 2012 the Fund plans to adopt International Financial Reporting Standards (IFRS) for purposes of financial reporting. The Manager does not expect that net assets per unit will be impacted from the changeover to IFRS.

## BOARD OF DIRECTORS AND OFFICERS

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## CORPORATE AND UNITHOLDER INFORMATION

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