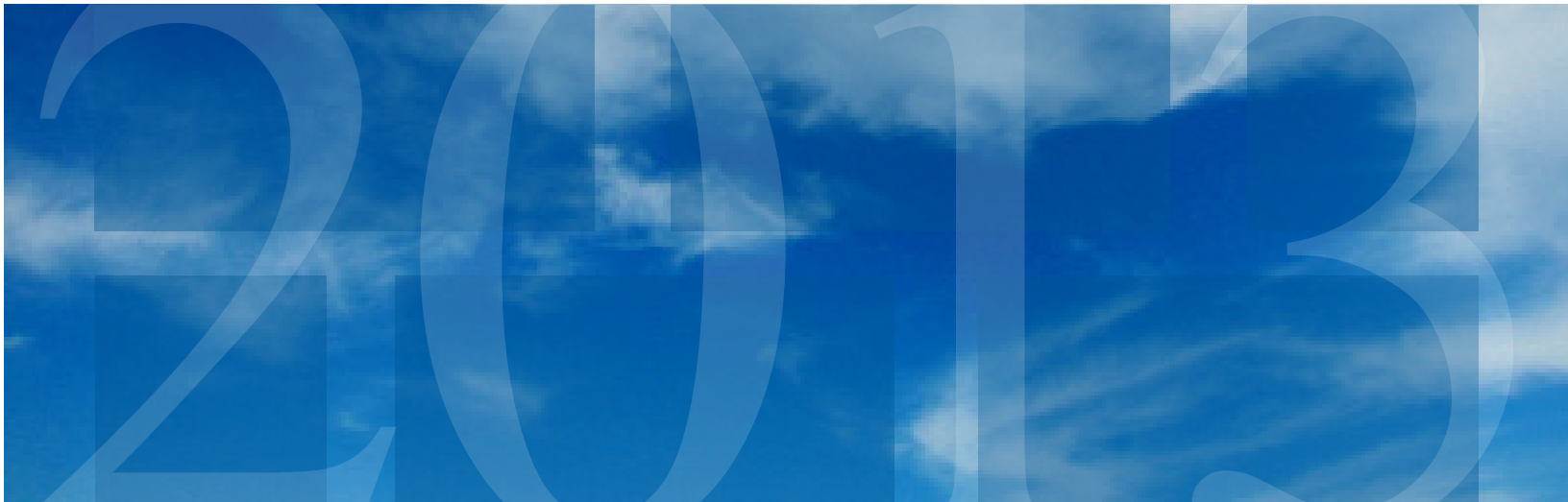


Artemis

Investment Management



## CITADEL INCOME FUND

ANNUAL REPORT

DECEMBER 31, 2013

## **TABLE OF CONTENTS**

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|           |  |
|-----------|--|
| <b>1</b>  | <b>MANAGEMENT REPORT OF FUND PERFORMANCE</b> |
| <b>9</b>  | <b>FINANCIAL STATEMENTS</b>                  |
| <b>12</b> | <b>STATEMENTS OF NET ASSETS</b>              |
| <b>13</b> | <b>STATEMENTS OF OPERATIONS</b>              |
| <b>14</b> | <b>STATEMENTS OF CHANGES IN NET ASSETS</b>   |
| <b>15</b> | <b>STATEMENTS OF INVESTMENTS</b>             |
| <b>18</b> | <b>NOTES TO THE FINANCIAL STATEMENTS</b>     |
| <b>29</b> | <b>CORPORATE INFORMATION</b>                 |

# MANAGEMENT REPORT OF FUND PERFORMANCE

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## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Citadel Income Fund (the “Fund”) contains financial highlights but does not contain the annual financial statements of the Fund. The annual financial statements follow this report. You may obtain a copy of the annual financial statements, at no cost, by calling 416-934-7455, or by sending a request to Investor Relations, Artemis Investment Management Limited, 5 Hazelton Avenue, Suite 200, Toronto, ON, M5R 2E1, Canada or by visiting our website at [www.artemisfunds.ca](http://www.artemisfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Unit holders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund’s calculation of its daily Net Asset Value (“NAV”), which is exempted from the application of CPA Handbook Section 3855, except for the figures presented in the NAV per unit outstanding table, which can be found under Financial Highlights. In accordance with National Instrument 81-106, the figures in this table are derived from the financial statements.

## THE FUND

The Fund is a closed-end investment trust. Artemis Investment Management Limited is the investment fund manager (the “Manager”) of the Fund. The Fund has one class of units (each, a “Unit”) outstanding. The Units trade on the Toronto Stock Exchange (“TSX”) under the symbol CTF.UN. The Fund’s portfolio is managed by Vestcap Investment Management Inc. (“Vestcap” or the “Portfolio Advisor”).

## INVESTMENT OBJECTIVES

Citadel Income Fund’s investment objectives are to provide holders of its Units (“Unitholders”) with a stable stream of monthly distributions and to preserve and potentially enhance the net asset value of the Fund. The Portfolio Advisor seeks to achieve these objectives by investing in a diversified portfolio of securities consisting of: (i) equity securities of principally larger capitalization companies traded on a recognized stock exchange; (ii) debt securities, with a minimum of 80% of debt security investments in investment grade debt rated BBB or higher; and (iii) income funds, each of which has, at the date of investment by the Fund, a market capitalization, excluding control positions, of \$400 million.

## RISKS

There are a number of risks associated with an investment in Citadel Income Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund’s portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates, interest rates and general business operation risks, any of which may affect the issuers’ income and as a result reduce the value of its securities. Diversification and active management by the Portfolio Advisor of the securities held in the portfolio may reduce these risks.

There were no changes in the year ended December 31, 2013 that materially affected the risks associated with an investment in Units of the Fund. For a complete list of risks, see the Fund’s prospectus filed August 16, 2013 on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

The NAV of the Fund went from \$106.63 million to \$113.49 million from January 1, 2013 to December 31, 2013. Total revenue per Unit for 2013 was \$0.15 (\$3.42 million), compared to \$0.16 (\$5.89 million) during 2012. Operations resulted in an increase in NAV per unit of \$0.51 (\$11.80 million), up from an increase of \$0.17 per Unit for 2012 (\$6.20 million). The increase in net assets from operations during the year was offset by redemptions and retractions of \$11.16 million, distributions of \$8.40 million and a charge of \$7 million by the former manager of the Fund, Crown Hill Capital Corporation (“Crown

## MANAGEMENT REPORT OF FUND PERFORMANCE

Hill”), related to its resignation.

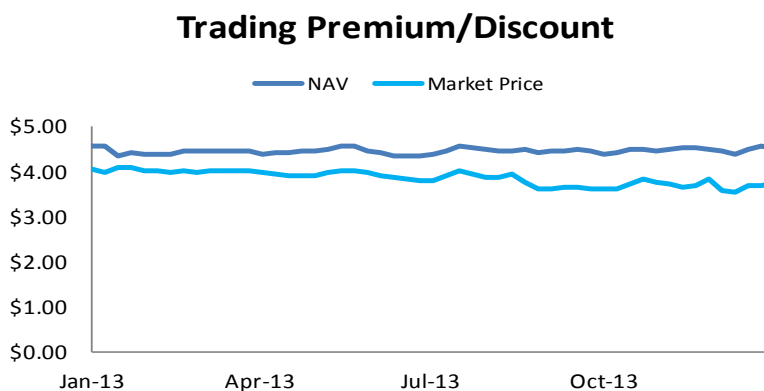
Total administrative expenses for the year ended December 31, 2013 were \$7.39 million compared to \$0.58 million for 2012. Excluding the charges for Crown Hill’s resignation, total administrative expenses were \$0.40 million for 2013. Management fees decreased for the year to \$1.15 million (2012 - \$1.82 million). Investment management fees decreased to \$0.44 million during the year (2012 - \$0.60 million). The reduction in administrative expenses, management fees and investment management fees resulted from expense reduction initiatives by the Manager as well as the Fund’s lower average net asset value throughout the year.

The NAV per Unit, including the impact of the charges related to Crown Hill’s resignation, distributions and the warrant offering rose 9.63% for 2013.

For the years ended December 31, 2013 and 2012, Citadel Income Fund paid total cash distributions of \$0.36 per unit based on monthly distributions of \$0.03 per unit.

### TRADING PREMIUM/DISCOUNT

In 2013, the Fund’s market price traded at an average discount to its net asset value per unit of 13.53%, compared to an average discount of 14.69% for 2012.



### RECENT DEVELOPMENTS

#### Warrant Offering

On August 19, 2013, the Fund announced that it had filed a short form prospectus relating to an offering of transferrable warrants to unitholders of the Fund. A copy of the short form prospectus is available on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com). Each Unitholder of record on August 29, 2013 received one warrant for each Unit held. A total of 22,504,159 warrants were issued. Each warrant entitled the Unitholder to purchase a new Unit upon payment of the subscription price of \$3.67. Warrants could be exercised before the earlier of i) October 17, 2013 and ii) such date which was 20 business days after the warrants were called by the Fund in accordance with the terms of the warrant offering. Upon completion of the warrant offering, a total of 4,021,821 warrants had been exercised for net proceeds of \$14,478,556 in 2013, after expenses totaling \$281,527.

#### Monthly Distributions for 2014

On January 22, 2014, the Fund announced distributions for 2014 of \$0.03 per Unit per month. Each monthly distribution would be paid in Units of the Fund, instead of cash, based on the 5-day volume-weighted average trading price of the Units, calculated, in each case, as of the date that is five trading days before the applicable record date. Unitholders of record on the last day of each month of 2014 would be paid distributions on the 15th day (or first business day thereafter) of the ensuing month. In connection with each monthly distribution, outstanding Units of the Fund would trade ex-distribution commencing on the date that is two trading days before the applicable monthly record date.

## MANAGEMENT REPORT OF FUND PERFORMANCE

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A copy of the full news release is available on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### Further Revision of Distribution Policy

On February 3, 2014, the Fund announced that the distribution policy had been further revised and a cash distribution would be reinstated for the remainder of the year. The distribution for the remainder of 2014 was set at \$0.01 per Unit per month in cash. Additionally, the Fund announced a change to its distribution reinvestment plan ("DRIP").

As previously announced, Unitholders of record on the last day of January 2014 were paid a \$0.03 distribution, paid in Units of the Fund (209,757 Units). For the remainder of the year, Unitholders of record on the last day of each month will be paid cash distributions of \$0.01 on the 15th day (or first business date thereafter) of the ensuing month.

The Fund instituted a change to its existing DRIP. Units issued under the program will be issued at a 5% discount to the applicable 5-day volume-weighted average trading price of the Units. As a result, Unitholders participating in the plan will be acquiring Units at a discount to the market price of the Fund's Units.

A copy of the full news release has been filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### Redemptions & Retractions

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). For 2013 that number was 2,366,064 Units. On January 18, 2013, the Fund redeemed 1,000,000 Units at a price of \$4.355. In November 2013, 1,500,000 Units were redeemed pursuant to another redemption at a price of \$4.2693 per Unit.

### Normal Course Issuer Bid Program ("NCIB Program")

Under the NCIB Program, the Fund was entitled to purchase up to 2,248,541 Units of the Fund, subject to certain restrictions. Further information on this matter can be found in the press release dated February 4, 2013 on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com). For the year ended December 31, 2013, the Fund repurchased 2,000 Units for cancellation under its NCIB program at an average cost of \$4.24 per Unit.

### Change in Portfolio Advisor

On February 26, 2013, the Fund announced the appointment of Vestcap Investment Management Inc. ("Vestcap") as Portfolio Advisor of the Fund effective April 25, 2013, replacing Jarislowsky Fraser Limited. Further information on this matter can be found in the press release dated February 26, 2013 on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### Change in Manager

On January 15, 2013, Crown Hill Capital Corporation ("Crown Hill") announced that it had tendered its resignation as manager. Such resignation was effective upon the appointment of Artemis Investment Management Limited as the new manager and trustee of the Fund (the "Trustee" or the "Manager"), which took place on January 16, 2013.

## RELATED PARTY TRANSACTIONS

The manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2013, management fees totaled \$1,152,264 (2012 - \$1,818,530), of which \$88,637 was payable as at December 31, 2013. The Fund is responsible for all expenses incurred. Prior to Artemis becoming the Manager, all expenses of the Fund were

## MANAGEMENT REPORT OF FUND PERFORMANCE

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initially paid by the manager, who was then reimbursed by the Fund. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Portfolio Advisor receives a fee of 0.33% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the year ended December 31, 2013, investment management fees totaled \$437,338 (2012 - \$598,246), of which \$29,385 was payable as at December 31, 2013.

Administrative Expenses for the year ended December 31, 2013 totaled \$7,394,561 (2012 - \$581,858). For 2013, Artemis charged \$35,000 per month plus applicable taxes to the Fund to cover related administrative salaries, employee benefits, general overhead and office supplies (2012 - \$35,000). In addition to recurring administrative expenses of the Fund, certain non-recurring expenses in the period were a result of Crown Hill announcing its resignation as trustee and manager of the Fund as of January 15, 2013. The resignation was effective upon the appointment of Artemis as the Manager of the Fund, which took place on January 16, 2013. A resignation expense of \$5.35 million plus applicable taxes was paid to Crown Hill as a result of its resignation as manager of the Fund. In addition, expenses totaling \$0.84 million plus applicable taxes were paid to Crown Hill.

For redemptions or repurchases made subsequent to the amended and restated declaration of trust as of March 7, 2014 (the "Declaration of Trust"), the manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the year ended December 31, 2013, redemption fees totaled \$384,637 (2012 - \$5,651,317) of which \$nil was payable as at December 31, 2013 (2012 - \$45,482).

# MANAGEMENT REPORT OF FUND PERFORMANCE

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years as applicable.

### The Fund's Net Assets per Unit <sup>(1)</sup>

| For the Periods Ended                                     | 2013          | 2012          | 2011          | 2010          | 2009          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Net Assets per Unit, Beginning of Year</b>             | <b>\$4.54</b> | <b>\$5.30</b> | <b>\$5.74</b> | <b>\$5.62</b> | <b>\$5.36</b> |
| Increase From Operations:                                 |               |               |               |               |               |
| Total Revenue   | 0.15          | 0.16          | 0.21          | 0.27          | 0.22          |
| Total Expenses  | (0.42)        | (0.11)        | (0.14)        | (0.12)        | (0.19)        |
| Realized Gains  | 0.20          | 0.11          | 0.12          | 0.29          | 0.19          |
| Unrealized Gains (Losses)                                 | 0.58          | 0.01          | (0.18)        | 0.14          | 0.73          |
| <b>Total Increase From Operations <sup>(2)</sup></b>      | <b>\$0.51</b> | <b>\$0.17</b> | <b>\$0.01</b> | <b>\$0.58</b> | <b>\$0.95</b> |
| Distributions:  |               |               |               |               |               |
| From Net Investment Income                                | -             | 0.04          | 0.04          | 0.17          | -             |
| From Capital Gains  | -             | -             | 0.09          | 0.20          | 0.14          |
| Return of Capital   | 0.36          | 0.32          | 0.23          | 0.11          | 0.31          |
| <b>Total Annual Distributions per Unit <sup>(3)</sup></b> | <b>0.36</b>   | <b>0.36</b>   | <b>0.36</b>   | <b>0.48</b>   | <b>0.45</b>   |
| <b>Net Assets per Unit At December 31 of Year Shown</b>   | <b>\$4.53</b> | <b>\$4.54</b> | <b>\$5.30</b> | <b>\$5.74</b> | <b>\$5.62</b> |

(1) This information is derived from the Fund's audited annual financial statements. The net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated for fund pricing purposes because of the provisions of CPA Handbook Section 3855. An explanation of the differences can be found in the notes to the 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 financial period.

(3) Distributions were paid in cash.

## RATIOS AND SUPPLEMENTAL DATA

| For the Years Ended                                | 2013      | 2012      | 2011      | 2010      | 2009      |
|--|-----------|-----------|-----------|-----------|-----------|
| Total Net Asset Value (\$ 000's) <sup>(1)</sup>    | \$113,553 | \$106,625 | \$158,615 | \$184,670 | \$236,760 |
| Number of Units Outstanding (000's) <sup>(1)</sup> | 25,042    | 23,485    | 29,912    | 32,163    | 42,128    |
| Management Expense Ratio <sup>(2)</sup>            | 9.27%     | 3.58%     | 4.21%     | 2.08%     | 3.35%     |
| Trading Expense Ratio <sup>(3)</sup>               | 0.12%     | 0.06%     | 0.02%     | 0.08%     | 0.39%     |
| Portfolio Turnover Ratio <sup>(4)</sup>            | 32.45%    | 38.33%    | 6.44%     | 48.91%    | 184.36%   |
| Closing Market Price                               | \$3.74    | \$4.02    | \$3.88    | \$5.21    | \$5.15    |

(1) This information is provided as at December 31 of the year shown.

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

(3) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor 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 the 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 a year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

# MANAGEMENT REPORT OF FUND PERFORMANCE

## MANAGEMENT FEES

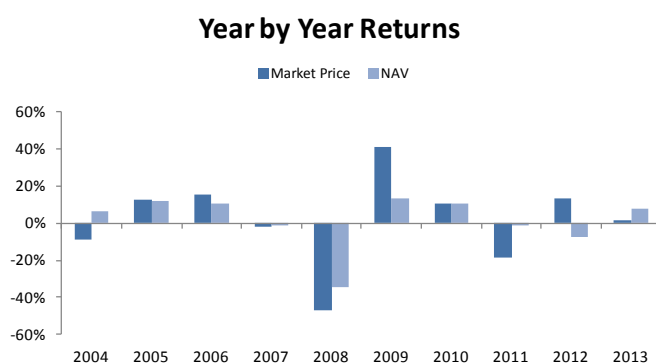
The manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. The portfolio advisor receives a fee of 0.33% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services.

## PAST PERFORMANCE

The Fund's performance numbers represent the annual compound total returns over the period from inception in June 2004 to December 31, 2013 (except for returns of less than one year which are compounded total returns). Total returns are based upon both the Fund's change in market price or net assets per unit plus the reinvestment of all distributions in additional Units of the Fund on the reinvestment dates for the year.

Returns do not take into account sales, redemptions or income taxes payable. Past performance of the fund does not necessarily indicate how it will perform in the future.

The total return of the Fund for the year ended December 31, 2013 was 9.63% measured in terms of its NAV. The total return of the market price per Unit of the Fund for the year ended December 31, 2013 was 2.22%.



## ANNUAL COMPOUND RETURNS

The following table presents the annual compound returns for Citadel Income Fund based on market price and net assets per Unit for the years indicated to December 31, 2013.

|                                    | 1-Year | 3-Year  | 5-Year | Since Inception |
|------------------------------------|--------|---------|--------|-----------------|
| Citadel Income Fund (market price) | 2.22%  | (2.07)% | 7.91%  | (1.16)%         |
| Citadel Income Fund (net assets)   | 9.63%  | 0.05%   | 4.65%  | 0.67%           |
| iShares S&P/TSX 60 Index Fund      | 11.95% | 3.09%   | 10.27% | 8.09%           |
| Composite Benchmark <sup>(1)</sup> | 12.03% | 4.77%   | 9.72%  | 7.19%           |

(1) The composite benchmark consists of a 65% allocation in iShares S&P/TSX 60 Fund (XIU), a 15% allocation in SPDR Dow Jones Industrial Average ETF (DIA), a 10% allocation in DEX Universe Bond Index Fund (XBB) and a 10% allocation in Canadian Treasury Bills.



# MANAGEMENT REPORT OF FUND PERFORMANCE

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2013

Total Net Assets: \$ 113,494,197

The major portfolio categories and top holdings of the Fund at the end of the period are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. Quarterly updates are available at [www.artemisfunds.ca](http://www.artemisfunds.ca).

| Portfolio by Sector                         | % of Total Net Assets |
|---|-----------------------|
| Canadian Equities                           |                       |
| Pipeline/Energy Investments                 | 14.00                 |
| Financial Services                          | 22.70                 |
| Consumer Goods & Services                   | 4.30                  |
| Telecommunications                          | 9.80                  |
| Oil & Gas Corporations                      | 5.20                  |
| Materials                                   | 11.30                 |
| Retail                                      | 0.60                  |
| Total Canadian Equities                     | 67.90                 |
| Canadian Bonds                              | 4.90                  |
| International Bonds (U.S., U.K.)            | 0.40                  |
| International Equities (U.S., U.K., France) | 25.40                 |
| Other Assets, Net of Liabilities            | 1.40                  |
| Total Net Assets                            | 100.00                |

## TOP 25 HOLDINGS (as a % of Total Net Assets)

As at December 31, 2013

|  |      |   |              |
|--|------|---|--------------|
| Toronto-Dominion Bank                      | 5.20 | Major Drilling Group International Inc. | 2.00         |
| Royal Bank of Canada                       | 5.00 | Caterpillar Inc.                        | 1.90         |
| Bank of Nova Scotia                        | 4.30 | HSBC Holdings PLC, ADR                  | 1.90         |
| Canadian Imperial Bank of Commerce         | 3.20 | Johnson & Johnson                       | 1.90         |
| Thomson Reuters Corp.                      | 2.60 | Pfizer Inc.                             | 1.80         |
| Teck Resources Ltd.                        | 2.40 | Vodafone Group PLC, ADR                 | 1.80         |
| Walgreen Co.                               | 2.30 | BCE Inc.                                | 1.80         |
| Canadian National Railway Co.              | 2.30 | Pembina Pipeline Corp.                  | 1.80         |
| Potash Corp.                               | 2.30 | Great-West Lifeco Inc.                  | 1.70         |
| Manulife Financial Corp.                   | 2.30 | Inter Pipeline Ltd.                     | 1.70         |
| Canadian Imperial Bank of Commerce, 1.750% | 2.20 | Pepsico Inc.                            | 1.70         |
| Rogers Communications Inc.                 | 2.10 | Enbridge Inc.                           | 1.70         |
| Canadian Natural Resources Ltd.            | 2.10 | <b>% of Total Net Assets</b>            | <b>60.00</b> |

## MANAGEMENT REPORT OF FUND PERFORMANCE

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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent the Manager's or Portfolio Advisor's expectations regarding future events. By their nature, forward-looking statements must be based on assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this document are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Actual results may differ materially from the Manager's or Portfolio Advisor's expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, foreign exchange rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's prospectus, Annual Information Form and other investor documentation. The foregoing list of factors is not exhaustive and when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, neither the Fund nor the Manager undertakes, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Financial Statements  
(Expressed in Canadian dollars)

# CITADEL INCOME FUND

For the years ended December 31, 2013 and 2012



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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The financial statement of Citadel Income Fund (the "Fund") have been prepared by Artemis Investment Management Limited ("Artemis") and approved by the Board of Directors of Artemis (the "Board"). Artemis is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

Artemis maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 4 to the financial statements.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

The board has appointed the external audit firm of KPMG LLP. It has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable it to express to Unitholders its opinion on the financial statements. The auditor has full and unrestricted access to the Board to discuss its findings.

(signed) \_\_\_\_\_

Conor Bill  
Chief Executive Officer  
Artemis Investment Management Limited

March 7, 2014

(signed) \_\_\_\_\_

Trevor Maunder  
Chief Financial Officer  
Artemis Investment Management Limited



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Canada

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Fax (416) 777-8818  
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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Citadel Income Fund

We have audited the accompanying financial statements of Citadel Income Fund, which comprise the statements of net assets and investments as at December 31, 2013, the statements of operations and changes in net assets for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Citadel Income Fund as at December 31, 2013, and its results of operations and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

### *Other Matter*

The financial statements of Citadel Income Fund as at and for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on April 2, 2013.

Chartered Professional Accountants, Licensed Public Accountants

March 7, 2014  
Toronto, Canada

## STATEMENTS OF NET ASSETS

| December 31, 2013, with comparative figures for 2012 | 2013                  | 2012                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| Investments at fair value                            | \$ 111,912,691        | \$ 104,269,121        |
| Cash and cash equivalents                            | 1,947,865             | 2,813,182             |
| Dividends and interest receivable                    | 418,830               | 494,606               |
| Prepaid expenses                                     | -                     | 163,758               |
| Other receivables                                    | 261,681               | -                     |
|  | <u>114,541,067</u>    | <u>107,740,667</u>    |
| <b>Liabilities</b>                                   |                       |                       |
| Distributions payable                                | 751,249               | 704,549               |
| Management fees payable (note 9)                     | 88,637                | 90,846                |
| Accounts payable and accrued liabilities (note 9)    | 206,984               | 320,015               |
|  | <u>1,046,870</u>      | <u>1,115,410</u>      |
| <b>Net Assets Representing Unitholder's Equity</b>   | <u>\$ 113,494,197</u> | <u>\$ 106,625,257</u> |
| <b>Units Outstanding (note 7)</b>                    | 25,041,625            | 23,484,986            |
| <b>Net Assets per Unit (note 4)</b>                  | <u>\$ 4.53</u>        | <u>\$ 4.54</u>        |

See accompanying notes to financial statements.

On behalf of the Board,

(signed) \_\_\_\_\_

Conor Bill  
Chief Executive Officer

(signed) \_\_\_\_\_

Trevor Maunder  
Chief Financial Officer

## STATEMENTS OF OPERATIONS

| Year ended December 31, 2013, with comparative figures for 2012               | 2013                 | 2012                |
|---|----------------------|---------------------|
| <b>Investment Income</b>  |                      |                     |
| Dividend income   | \$ 3,084,113         | \$ 5,030,095        |
| Interest income   | 333,618              | 855,415             |
| Other income  | 5,054                | -                   |
|   | <u>3,422,785</u>     | <u>5,885,510</u>    |
| <b>Expenses</b>   |                      |                     |
| Management fees (note 9)  | 1,152,264            | 1,818,530           |
| Legal fees  | 123,713              | 351,087             |
| Investment management fees (note 9)   | 437,338              | 598,246             |
| Administrative (note 9)   | 7,394,561            | 581,858             |
| Regulatory and listing  | 121,695              | 58,925              |
| Unitholder servicing  | 120,286              | 132,040             |
| Custody, valuation and transfer fees  | 93,858               | 97,113              |
| Audit and review fees   | 46,137               | 59,109              |
| Independent review committee fees   | 72,755               | 58,565              |
| Transaction costs (note 12)   | 121,000              | 93,724              |
| Directors Fees  | 69,909               | 55,470              |
| Income tax recovery   | (24,473)             | -                   |
|   | <u>9,729,043</u>     | <u>3,904,667</u>    |
| <b>Net Investment Income (Loss)</b>   | (6,306,258)          | 1,980,843           |
| <b>Net Realized Gain on Sale of Investments (note 6)</b>                      | 4,574,595            | 3,786,729           |
| <b>Net Realized Gain (Loss) on Foreign Currency</b>                           | 29,196               | (148,352)           |
| <b>Net Change in Unrealized Appreciation in Value of Investments (note 6)</b> | 13,499,434           | 577,461             |
| <b>Net Change in Unrealized Appreciation in Value of Foreign Currency</b>     | 699                  | -                   |
| <b>Increase in Net Assets from Operations</b>                                 | <u>\$ 11,797,666</u> | <u>\$ 6,196,681</u> |
| <b>Increase in Net Assets from Operations per Unit <sup>(1)</sup></b>         | <u>\$ 0.51</u>       | <u>\$ 0.17</u>      |

<sup>(1)</sup> Based on the weighted average number of units outstanding during the year.

See accompanying notes to financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS

| Year ended December 31, 2013, with comparative figures for 2012        | 2013                  | 2012                  |
|--|-----------------------|-----------------------|
| <b>Net Assets - Beginning of Year</b>                                  | \$106,625,257         | \$ 158,615,364        |
| <b>Operations</b>  |                       |                       |
| Net investment income (loss)   | (6,306,258)           | 1,980,843             |
| Net realized gain on sale of investments (note 6)                      | 4,574,595             | 3,786,729             |
| Net realized gain (loss) on foreign currency                           | 29,196                | (148,352)             |
| Net change in unrealized appreciation in value of investments (note 6) | 13,499,434            | 577,461               |
| Net change in unrealized appreciation in the value of foreign currency | 699                   | -                     |
|  | <u>11,797,666</u>     | <u>6,196,681</u>      |
| <b>Capital Unit Transactions (note 7)</b>                              |                       |                       |
| Proceeds from exercise of warrants, net of expenses                    | 14,478,556            | 90,552,341            |
| Proceeds from distribution reinvestment plan                           | 151,482               | 134,543               |
| Units repurchased and canceled under the normal course issuer bid      | (8,476)               | (13,046,848)          |
| Paid for Units redeemed  | (11,151,811)          | (123,321,618)         |
|  | <u>3,469,751</u>      | <u>(45,681,582)</u>   |
| <b>Distributions to Unitholders</b>                                    |                       |                       |
| From net investment income   | -                     | (1,540,204)           |
| Return to Unitholders  | (8,398,477)           | (10,965,002)          |
|  | <u>(8,398,477)</u>    | <u>(12,505,206)</u>   |
| <b>Increase (Decrease) in Net Assets</b>                               | <u>6,868,940</u>      | <u>(51,990,107)</u>   |
| <b>Net Assets - End of Year</b>  | <u>\$ 113,494,197</u> | <u>\$ 106,625,257</u> |
| <b>Distributions per Unit</b>  | <u>\$ 0.36</u>        | <u>\$ 0.36</u>        |

See accompanying notes to financial statements.



## STATEMENT OF INVESTMENTS

December 31, 2013

| Number of shares/par value           | Investments owned                                      | Average cost | Fair value | % of net assets |
|--------------------------------------|--|--------------|------------|-----------------|
| <b>CANADIAN BONDS</b>                |  |              |            |                 |
| 250,000                              | Bell Canada, 4.400%, 03/16/2018                        | \$ 249,790   | \$ 263,842 | 0.2             |
| 141,000                              | Bell Canada, 4.950%, 05/19/2021                        | 140,484      | 150,386    | 0.1             |
| 2,500,000                            | Canadian Imperial Bank of Commerce, 1.750%, 06/01/2016 | 2,471,500    | 2,494,561  | 2.2             |
| 150,000                              | Enbridge Inc., 4.770%, 09/02/2019                      | 154,131      | 162,350    | 0.2             |
| 457,000                              | Intact Financial Corp., 4.700%, 08/18/2021             | 475,103      | 484,464    | 0.4             |
| 425,000                              | Pembina Pipeline Corp., 4.890%, 03/29/2021             | 441,040      | 456,638    | 0.4             |
| 200,000                              | Quebecor Media Inc., 7.375%, 01/15/2021                | 200,000      | 215,550    | 0.2             |
| 445,000                              | Rogers Communications Inc., 4.700%, 09/29/2020         | 444,755      | 471,054    | 0.4             |
| 130,000                              | Royal Bank of Canada, 2.980%, 05/07/2019               | 132,295      | 130,157    | 0.1             |
| 350,000                              | TELUS Corporation, 5.050%, 12/04/2019                  | 356,015      | 380,773    | 0.3             |
| 350,000                              | TransCanada Pipelines Ltd., 3.650%, 11/15/2021         | 359,719      | 353,426    | 0.4             |
|                                      |  | 5,424,832    | 5,563,201  | 4.9             |
| <b>CANADIAN EQUITIES</b>             |  |              |            |                 |
| <b>Oil and Gas Corporations</b>      |  |              |            |                 |
| 62,712                               | ARC Resources Ltd.                                     | 1,310,881    | 1,851,258  | 1.6             |
| 77,856                               | Bonavista Energy Corp.                                 | 1,557,001    | 1,082,198  | 1.0             |
| 66,895                               | Canadian Natural Resources Ltd.                        | 2,538,939    | 2,402,868  | 2.1             |
| 100,000                              | Lightstream Resources Ltd.                             | 871,050      | 588,000    | 0.5             |
|                                      |  | 6,277,871    | 5,924,324  | 5.2             |
| <b>Integrated Financial Services</b> |  |              |            |                 |
| 34,075                               | Power Financial Corp.                                  | 1,012,455    | 1,226,359  | 1.1             |
| <b>Pipeline/Energy Investments</b>   |  |              |            |                 |
| 54,945                               | Cenovus Energy Inc.                                    | 1,567,485    | 1,670,328  | 1.5             |
| 38,085                               | Enbridge Inc.  | 954,992      | 1,766,763  | 1.6             |
| 103,270                              | Encana Corp.   | 2,622,205    | 1,978,653  | 1.8             |
| 74,960                               | Inter Pipeline Ltd.                                    | 1,021,802    | 1,936,217  | 1.7             |
| 27,400                               | Keyera Corp.   | 753,880      | 1,749,764  | 1.5             |
| 41,665                               | Pembina Pipeline Corp.                                 | 815,910      | 1,559,104  | 1.4             |
| 40,435                               | Suncor Energy Inc.                                     | 1,369,106    | 1,504,991  | 1.3             |
| 59,200                               | Talisman Energy Inc.                                   | 868,865      | 731,120    | 0.6             |
| 38,609                               | Transcanada Corp.                                      | 1,424,525    | 1,872,150  | 1.6             |
| 203,600                              | Uranium Participation Corp.                            | 1,034,288    | 1,150,340  | 1.0             |
|                                      |  | 12,433,058   | 15,919,430 | 14.0            |

## STATEMENT OF INVESTMENTS (CONTINUED)

December 31, 2013

| Number of shares/par value               | Investments owned                  | Average cost | Fair value | % of net assets |
|--|------------------------------------|--------------|------------|-----------------|
| <b>Materials</b>                         |                                    |              |            |                 |
| 80,000                                   | Barrick Gold Corp.                 | 1,442,351    | 1,496,800  | 1.3             |
| 33,130                                   | Cameco Corp.                       | 796,983      | 730,185    | 0.6             |
| 445,750                                  | Capstone Mining Corp.              | 1,224,208    | 1,332,793  | 1.2             |
| 15,000                                   | Goldcorp Inc.                      | 402,450      | 344,850    | 0.3             |
| 302,800                                  | Major Drilling International Inc.  | 2,268,018    | 2,325,504  | 2.0             |
| 73,835                                   | Potash Corp.                       | 2,905,412    | 2,584,225  | 2.3             |
| 330,100                                  | Sherritt International Corp.       | 1,183,838    | 1,221,370  | 1.1             |
| 100,000                                  | Teck Resources Inc.                | 2,587,080    | 2,761,000  | 2.4             |
|  |                                    | 12,810,340   | 12,796,727 | 11.3            |
| <b>Telecommunications</b>                |                                    |              |            |                 |
| 45,550                                   | BCE Inc.                           | 1,798,495    | 2,093,478  | 1.8             |
| 58,000                                   | Corus Entertainment Inc.           | 1,115,332    | 1,491,760  | 1.3             |
| 39,470                                   | Rogers Communications Inc.         | 1,398,179    | 1,896,534  | 1.7             |
| 56,480                                   | Shaw Communications Inc.           | 1,191,049    | 1,460,008  | 1.3             |
| 33,920                                   | TELUS Corp.                        | 958,334      | 1,240,115  | 1.1             |
| 74,220                                   | Thomson Reuters Corp.              | 2,415,158    | 2,981,417  | 2.6             |
|  |                                    | 8,876,547    | 11,163,312 | 9.8             |
| <b>Financial Services</b>                |                                    |              |            |                 |
| 73,590                                   | Bank of Nova Scotia                | 3,732,162    | 4,886,376  | 4.3             |
| 40,000                                   | Canadian Imperial Bank of Commerce | 3,069,388    | 3,628,400  | 3.2             |
| 59,920                                   | Great-West Lifeco Inc.             | 1,546,295    | 1,961,781  | 1.7             |
| 122,528                                  | Manulife Financial Corp.           | 2,217,639    | 2,566,962  | 2.3             |
| 77,850                                   | Royal Bank of Canada               | 4,352,593    | 5,558,489  | 4.9             |
| 59,500                                   | Toronto-Dominion Bank              | 4,143,244    | 5,955,354  | 5.3             |
|  |                                    | 19,061,321   | 24,557,362 | 21.7            |
| <b>Consumer Goods and Services</b>       |                                    |              |            |                 |
| 43,430                                   | Canadian National Railway Co.      | 1,482,878    | 2,629,252  | 2.3             |
| 11,915                                   | George Weston Ltd.                 | 782,884      | 922,340    | 0.8             |
| 21,000                                   | Tim Hortons Inc.                   | 823,564      | 1,301,790  | 1.1             |
|  |                                    | 3,089,326    | 4,853,382  | 4.2             |
| <b>Retail</b>                            |                                    |              |            |                 |
| 95,000                                   | Reitmans Canada Ltd.               | 835,820      | 645,050    | 0.6             |
| <b>TOTAL CANADIAN EQUITIES</b>           |                                    | 64,396,738   | 77,085,946 | 67.9            |
| <b>TOTAL CANADIAN BONDS AND EQUITIES</b> |                                    | 69,821,570   | 82,649,147 | 72.8            |

## STATEMENT OF INVESTMENTS (CONTINUED)

December 31, 2013

| Number of<br>shares/par value | Investments owned  | Average<br>cost      | Fair<br>value | % of net<br>assets |
|-------------------------------|--|----------------------|---------------|--------------------|
| <b>INTERNATIONAL BONDS</b>    |  |                      |               |                    |
| 400,000                       | Molson Coors International LP, 3.950%, 10/06/2017                    | 398,740              | 414,594       | 0.4                |
| <b>INTERNATIONAL EQUITIES</b> |  |                      |               |                    |
| 36,880                        | HSBC Holdings PLC, ADR   | 1,926,351            | 2,158,694     | 1.9                |
| 25,000                        | Rio Tinto PLC  | 1,069,834            | 1,498,119     | 1.3                |
| 22,740                        | Royal Dutch Shell PLC, ADR   | 1,638,811            | 1,720,758     | 1.5                |
| 27,130                        | Total SA, ADR  | 1,390,346            | 1,767,581     | 1.6                |
| 48,960                        | Vodafone Group PLC, ADR  | 1,177,995            | 2,044,899     | 1.8                |
|                               |  | 7,203,337            | 9,190,051     | 8.1                |
| <b>U.S. EQUITIES</b>          |  |                      |               |                    |
| 60,000                        | Bank of America Corp.  | 846,931              | 992,584       | 0.9                |
| 22,400                        | Caterpillar Inc.   | 1,964,981            | 2,161,270     | 1.9                |
| 50,000                        | Cliffs Natural Resources Inc.  | 876,552              | 1,391,870     | 1.2                |
| 24,710                        | Colgate-Palmolive Co.  | 1,000,492            | 1,711,779     | 1.5                |
| 25,000                        | Financial Select Sector SPDR Fund                                    | 513,105              | 580,123       | 0.5                |
| 22,200                        | Johnson & Johnson Inc.   | 1,467,301            | 2,160,135     | 1.9                |
| 50,000                        | Peabody Energy Corp.   | 922,370              | 1,037,527     | 0.9                |
| 22,340                        | Pepsico Inc.   | 1,430,670            | 1,968,440     | 1.7                |
| 63,075                        | Pfizer Inc.  | 1,174,777            | 2,052,059     | 1.8                |
| 15,265                        | Philip Morris International Inc.                                     | 778,645              | 1,412,999     | 1.2                |
| 18,380                        | Procter & Gamble Co.   | 1,171,156            | 1,589,634     | 1.4                |
| 42,610                        | Walgreen Co.   | 1,417,350            | 2,600,479     | 2.3                |
|                               |  | 13,564,330           | 19,658,899    | 17.3               |
|                               | <b>TOTAL INTERNATIONAL AND U.S. EQUITIES</b>                         | 20,767,667           | 28,848,950    | 25.4               |
|                               | <b>TOTAL INTERNATIONAL BONDS AND INTERNATIONAL AND U.S. EQUITIES</b> | 21,166,407           | 29,263,544    | 25.8               |
|                               | Transaction Costs  | (169,891)            |               |                    |
|                               | <b>Total Investments</b>   | <u>\$ 90,818,086</u> | 111,912,691   | 98.6               |
|                               | <b>Other Assets, Net of Liabilities</b>                              |                      | 1,581,506     | 1.4                |
|                               | <b>Net Assets</b>  |                      | 113,494,197   | 100.0              |

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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## 1. THE FUND

### (a) Establishment of the Fund

Citadel Income Fund (the “Fund”) is the name of the combined fund resulting from the merger on December 2, 2009 of Crown Hill Fund (“CHF”) with Citadel Premium Income Fund (“Premium”), Citadel HYTES Fund (“Hytes”), Citadel S-1 Income Trust Fund (“Citadel S-1”), Citadel Stable S-1 Income Fund (“Stable”) and Equal Weight Plus Fund (“Equal Weight”) (collectively the “Previous Citadel Funds”). The Fund acquired the investment portfolios and other assets of the Previous Citadel Funds on December 2, 2009, but did not assume any liabilities of the Previous Citadel Funds. Since the merger was an acquisition, it was done on a taxable basis.

### (b) Change in Manager

On January 15, 2013, Crown Hill Capital Corporation (“Crown Hill”) announced that it had tendered its resignation as Manager. Such resignation was effective upon the appointment of Artemis Investment Management Limited (“Artemis”) as the new Manager of the Fund, which subsequently took place on January 16, 2013. A termination payment of \$5.35 million was paid to Crown Hill. In addition, expenses totalling \$0.84 million were paid to Crown Hill.

### (c) Change in Portfolio Advisor

On February 22, 2013, the Fund announced the appointment of Vestcap Investment Management Inc. as portfolio advisor (“Portfolio Advisor”) of the Fund effective April 25, 2013, replacing Jarislowsky Fraser Limited.

## 2. INVESTMENT OBJECTIVES OF THE FUND

The Fund’s investment objectives are to provide the Unitholders with a stable stream of monthly distributions and to preserve and potentially enhance the net asset value of the Fund. The Portfolio Advisor seeks to achieve these objectives by investing in a diversified portfolio of securities with a focus on income generation, consisting of: (a) equity securities of principally larger capitalization companies traded on a recognized stock exchange; (b) debt securities with a focus on yield enhancement, with a minimum of 80% of debt security investments in investment grade debt rated BBB or higher; and (c) income funds, each of which has, at the date of investment by the Fund, a market capitalization, excluding control positions, of \$400 million.

## 3. INCOME TAXES

The Fund is a mutual fund trust within the meaning of the Income Tax Act (Canada) and is subject to applicable federal and provincial taxes on the amount of net income for tax purposes for the year, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to Unitholders in the year. No provision for income taxes has been recorded in the accompanying financial statements as all income and capital gains of the Fund will be paid or payable to the unitholders to the extent necessary to reduce taxes payable under Part 1 of the Income Tax Act (Canada) to nil.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the year. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements:

### (a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term bankers’ acceptances with maturities of less than 90 days on acquisition.

### (b) Valuation of Investments

Securities listed on a recognized public stock exchange are valued at their bid price on the valuation date. The fair value of financial assets and liabilities

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

that are not traded in an active market, e.g., non-traded investments, is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each statement date. Valuation techniques used include the use of comparable recent arm's-length transactions, references to other instruments that are substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants making the maximum use of market inputs. Certain financial assets and liabilities may be estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Assumptions used in these techniques may include the costs paid for the security, recent news reports about the issuer and general market indicators. Their fair value may be determined using valuation models that have been tested against the prices of actual market transactions and using management's best estimate of the most appropriate model inputs. These are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit spread and limitations in the models.

Short-term notes, treasury bills and bonds are valued at the average bid quotations from recognized investment dealers.

The Manager has reviewed its policies over the valuation of assets and liabilities and believes that the fair value ascribed to the financial assets and financial liabilities in these financial statements incorporates appropriate levels of credit risk.

## (c) Investment Transactions and Income Recognition

- i. Investment transactions are accounted for on the trade date;
- ii. Interest income and expenses are recorded on the accrual basis;
- iii. Dividend income is recorded on the ex-dividend date; and
- iv. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

## (d) Foreign Currency Translation

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

## (e) Distributions

Distributions to unitholders are recorded by the Fund when declared.

## (f) Transaction Costs

Transaction costs are expensed as incurred.

## (g) Application of CPA Canada Handbook Section 3855

For the purpose of preparing its financial statements, the Fund values its investments pursuant to Section 3855 of CPA Canada Handbook, as outlined above in note 4(b); the resulting net assets balance is referred to as "Net Assets". For all other purposes, including the processing of Unitholder transactions, the value of the Fund's investments that trade in an active market continue to be determined using the last traded price; the resulting net assets balance is referred to as "Transactional Net Assets". On each valuation date, the Transactional Net Assets per unit is computed by dividing the Transactional Net Assets of the Fund by the total number of its units outstanding. A reconciliation of Transactional Net Assets to Net Assets follows:

| 2013                                   | Net Assets     | Net Assets per Unit |
|--|----------------|---------------------|
| Transactional Net Assets               | \$ 113,553,091 | \$ 4.53             |
| Difference as a result of Section 3855 | (58,894)       | -                   |
| Net Assets                             | \$ 113,494,197 | \$ 4.53             |

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

| 2012                                   | Net Assets     | Net Assets per Unit |
|--|----------------|---------------------|
| Transactional Net Assets               | \$ 106,811,791 | \$ 4.55             |
| Difference as a result of Section 3855 | (186,534)      | (0.01)              |
| Net Assets                             | \$ 106,625,257 | \$ 4.54             |

## (h) Securities Lending

The Fund may lend portfolio securities in order to earn additional revenue. The minimum allowable collateral is 102% of the current value of the loaned securities as per the requirements of National Instrument 81-102.

The market value of the loaned securities is determined on the close of any valuation date, and any additional required collateral is made by the Fund on the next business day. The securities on loan continue to be included on the statement of investments and are included in the total value on the statement of net assets in investments at fair value.

As at December 31, 2013, the Fund had an aggregate value of securities on loan of nil (2012 - \$12,203,811) and corresponding aggregate value of collateral for loan of nil (2012 \$12,876,704).

## (i) Future Accounting Standards

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), on January 1, 2011. However, the AcSB deferred the mandatory IFRS changeover date for Canadian investment funds to January 1, 2014.

Consequently, the Fund will publish its first annual audited financial statements in accordance with IFRS for the year ending December 31, 2014, with comparatives for the year ending December 31, 2013, and prepare an opening IFRS statement of net assets at January 1, 2013. The Fund will also be publishing unaudited interim financial statements in accordance with IFRS for the 6-month period ending June 30, 2014.

The Manager has not identified any changes that will impact net asset value per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of the impact of IFRS, and the impact of new standards issued by the IASB prior to the Fund's adoption of IFRS (see commentary below). The criteria contained within IAS 32, Financial Instruments - Presentation, may require unitholders' equity to be classified as a liability within the Fund's statement of net assets, unless certain conditions are met. The Manager is currently assessing the Fund's unitholder structure to confirm the appropriate classification in accordance with IFRS.

IFRS is also expected to affect the overall presentation of financial statements, such as the inclusion of a statement of cash flows in the financial statements. Overall, enhanced disclosure requirements are expected.

Upon adoption of IFRS, the Fund will apply IFRS 13, Fair Value Measurement. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. It applies when other IFRSs require or permit fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per unit and net assets per unit under current GAAP.

On October 31, 2012, the IASB published Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), which provides an exemption from consolidation of subsidiaries under IFRS 10, Consolidated Financial Statements, for entities which meet the definition of an 'investment entity'. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. The consolidation exception is mandatory, not optional.

## 5. LOAN RECEIVABLE

On June 3, 2009, the Fund invested \$28,000,000 in CH Fund Administration LP, which used the proceeds to acquire a beneficial interest in the administrative contracts for various funds in the Citadel Group of Funds.

On December 2, 2009, five of the funds in the Citadel Group of Funds merged with the Fund (note 1). On December 18, 2009, the Fund received a promissory note (the "Note") from Crown Hill in the amount of \$9,955,000. On November 19, 2010, \$213,904 was added to the outstanding balance on the Note and bore interest on all outstanding amounts equal to prime plus 2% per annum.

In 2011, the outstanding balance on the Note was reduced by \$4,077,239, and \$218,176 in interest was received during the year. As of December 31, 2011, the undiscounted loan balance on the Note was \$2,275,175.

On May 1, 2012, the outstanding balance on the Note was nil, and it was discharged.

## 6. INVESTMENT PORTFOLIO

The following tables summarize movements in investments during the year ended December 31, 2013 and 2012:

### Investments at cost

|   | 2013          | 2012           |
|---|---------------|----------------|
| Investments at cost - beginning of year | \$ 96,673,950 | \$ 146,322,424 |
| Investments made during the year        | 32,146,775    | 61,700,341     |
| Dispositions during the year, at cost   | (38,002,639)  | (111,348,815)  |
| Investments at cost - end of year       | \$ 90,818,086 | \$ 96,673,950  |

### Net change in unrealized appreciation of investments

|  | 2013 <sup>(1)</sup> | 2012 <sup>(1)</sup> |
|--|---------------------|---------------------|
| Investments at fair value - end of year                    | \$ 111,912,691      | \$ 104,269,121      |
| Investments at cost - end of year                          | 90,818,086          | 96,673,950          |
| Unrealized appreciation of investments - end of year       | 21,094,605          | 7,595,171           |
| Unrealized appreciation of investments - beginning of year | 7,595,171           | 7,017,710           |
| Net change in unrealized appreciation of investments       | \$ 13,499,434       | \$ 577,461          |

### Net realized gain on sale of investments

|  | 2013          | 2012           |
|--|---------------|----------------|
| Proceeds of investments sold             | \$ 42,577,234 | \$ 115,135,544 |
| Cost of investments sold                 | (38,002,639)  | (111,348,815)  |
| Net realized gain on sale of investments | \$ 4,574,595  | \$ 3,786,729   |

<sup>(1)</sup> The figures provided in this table exclude transaction costs for financial reporting purposes.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

## 7. UNITS ISSUED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the Net Assets of the Fund. Unitholders are entitled to retract their units outstanding on the last business day of each month at an amount equal to (a) the lesser of: (i) 90% of the weighted average trading price of a unit on the TSX during the preceding 15 trading days; and (ii) the closing market price on the TSX on that day, less (b) any retraction costs. As well, the Board of Directors of the Trustee may set a date on which units will be retracted at the Transactional Net Assets per unit (note 4(g)), less any retraction costs.

The following unit transactions took place during the years ended December 31, 2013 and 2012:

### Units Issued and Outstanding

|  | 2013        |                | 2012         |                |
|--|-------------|----------------|--------------|----------------|
|  | Number      | Amount         | Number       | Amount         |
| Units - beginning of year                | 23,484,986  | \$ 115,816,508 | 29,912,208   | \$ 161,498,090 |
| Issued under DRIP                        | 39,625      | 151,482        | 34,284       | 134,543        |
| Warrants exercised (CTE.WT)              | 4,021,821   | 14,478,556     | -            | -              |
| Warrants exercised (CTE.WT.A)            | -           | -              | 23,218,549   | 90,552,341     |
| Units repurchased or canceled under NCIB | (2,000)     | (8,476)        | (3,253,300)  | (15,339,245)   |
| Units redeemed                           | (2,502,807) | (11,151,811)   | (26,426,755) | (121,029,221)  |
| Units - end of year                      | 25,041,625  | \$ 119,286,259 | 23,484,986   | \$ 115,816,508 |

### Warrants Issued and Outstanding

|   | 2013         | 2012         |
|---|--------------|--------------|
| Balance of warrants outstanding - beginning of year | -            | 27,623,999   |
| Warrants issued during the year                     | 22,504,159   | -            |
| Warrants exercised during the year                  | (4,021,821)  | (23,218,549) |
| Warrants expired during the year                    | (18,482,338) | (4,405,450)  |
| Balance of warrants outstanding - end of year       | -            | -            |

The weighted average number of units outstanding for the year ended December 31, 2013 was 23,240,035 (2012 - 35,740,843).

Each Unitholder of record on October 7, 2011 received one new warrant for each unit held (the "2011 warrant offering"). A total of 28,997,019 warrants were issued. Each warrant entitled the Unitholder to purchase a new unit upon payment of the subscription price of \$4.00. Warrants could be exercised at any time before the earlier of (a) March 8, 2012, or (b) such date which was 20 business days from the date the embedded call feature in the warrants was exercised by the Fund in accordance with the terms of the warrant offering. Upon completion of the 2011 warrant offering, a total of 24,591,569 warrants were exercised for net proceeds of \$95,907,119 in 2012 and 2011 combined, after expenses totalling \$2,459,157.

For the period from January 1, 2012 to December 31, 2012, the Fund repurchased 3,253,300 units for cancellation at an average cost of \$4.71 per unit under the NCIB (note 11). Through the monthly redemption feature offered during 2012, 96,091 units were redeemed for a total cost of \$337,277. Through the special redemption in March 2012, 5,000,000 units were redeemed for a total cost of \$23,699,671. Through the special redemption feature offered in August 2012, 21,330,664 units were redeemed for a total cost of \$96,992,273. Through the special redemption feature offered December 18, 2012, 1,000,000 units were redeemed for a total cost of \$4,355,000.



# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Each Unitholder of record on August 29, 2013 received one warrant for each unit held (the “2013 warrant offering”). A total of 22,504,159 warrants were issued. Each warrant entitled the Unitholder to purchase a new unit upon payment of the subscription price of \$3.67. Warrants could be exercised before the earlier of (a) October 17, 2013, and (b) the date which was 20 business days after the warrants were called by the Fund in accordance with the terms of the warrant offering. Upon completion of the 2013 warrant offering, a total of 4,021,821 warrants were exercised for net proceeds of \$14,478,556 in 2013, after expenses totalling \$281,527.

For the period from January 1, 2013 to December 31, 2013, the Fund repurchased 2,000 units for cancellation at an average cost of \$4.24 per unit under the NCIB (note 11). Through the monthly redemption feature offered during 2013, as at December 31, 2,807 units had been redeemed for a total cost of \$9,367. Through the special retraction feature offered in January 2013, 1,000,000 units were redeemed for a total cost of \$4,355,000. Through the special retraction feature offered in November 2013, 1,500,000 units were redeemed for a total cost of \$6,787,444.

Unitholders are also entitled to retract their units outstanding on the second last business day of each November (the “Annual Redemption Date”) at an amount equal to 100% of the net asset value per trust unit determined as of the Annual Redemption Date less any retraction costs. Any such units must be surrendered for redemption at least 15 business days before the Annual Redemption Date.

## 8. UNITHOLDERS' EQUITY

Unitholders' equity comprises Unitholders' capital and deficit. The changes in Unitholders' capital and deficit during the year ended December 31, 2013 is as follows:

|  | 2013 |              | 2012 |               |
|--|------|--------------|------|---------------|
| Unitholders' capital - beginning of year | \$   | 115,816,508  | \$   | 161,498,090   |
| Redemption of Units                      |      | (11,160,287) |      | (136,368,466) |
| Subscription of Units                    |      | 14,630,038   |      | 90,686,884    |
| Unitholders' capital - end of year       | \$   | 119,286,259  | \$   | 115,816,508   |

|                                      | 2013 |             | 2012 |              |
|--------------------------------------|------|-------------|------|--------------|
| Deficit - beginning of year          | \$   | (9,191,251) | \$   | (2,882,726)  |
| Results from operations for the year |      | 11,797,666  |      | 6,196,681    |
| Distributions to Unitholders         |      | (8,398,477) |      | (12,505,206) |
| Deficit - end of year                | \$   | (5,792,062) | \$   | (9,191,251)  |

|                                    | 2013 |             | 2012 |             |
|------------------------------------|------|-------------|------|-------------|
| Unitholders' capital - end of year | \$   | 119,286,259 | \$   | 115,816,508 |
| Deficit - end of year              |      | (5,792,062) |      | (9,191,251) |
| Unitholders' equity - end of year  | \$   | 113,494,197 | \$   | 106,625,257 |

## 9. RELATED PARTY TRANSACTIONS

The Fund is responsible for all expenses incurred. Prior to Artemis becoming the Manager, all expenses of the Fund were initially paid by the Manager, which was then reimbursed by the Fund. The Manager generally has all expenses incurred by the Fund paid directly by the Fund.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

The Manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2013, management fees totaled \$1,152,264 (2012 - \$1,818,530), of which \$88,637 was payable as at December 31, 2013 (2012 - \$90,846). The Fund is responsible for all expenses incurred. Prior to Artemis becoming the Manager, all expenses of the Fund were initially paid by the Manager, who was then reimbursed by the Fund. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Portfolio Advisor receives a fee of 0.33% per annum of the average net asset value of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the year ended December 31, 2013, investment management fees totaled \$437,338 (2012 - \$598,246), of which \$29,385 was payable at December 31, 2013.

Administrative expenses for the year ended December 31, 2013 totalled \$7,394,561 (2012 - \$581,858). As part of these expenses, the Fund is paying a general overhead cost to Artemis. Artemis received \$35,000 per month plus applicable taxes during 2013 (2012 - \$35,000 per month) to cover related administrative salaries, employee benefits, general overhead and office supplies. In addition to recurring administrative expenses of the Fund, certain non-recurring expenses in the year were a result of Crown Hill announcing its resignation as Trustee and Manager of the Fund as of January 15, 2013 (note 1(b)).

For redemptions or repurchases the Manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the year ended December 31, 2013, redemption fees totalled \$384,637 (2012 - \$5,651,317), of which nil was payable as at December 31, 2013 (2012 - \$45,482). On May 1, 2012, the outstanding balance on the Note was nil, and it was discharged (note 5).

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### (a) Financial Instruments

CPA Canada Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurement based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- (i) Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets;
- (ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- (iii) Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

The following tables present, as at December 31, 2013 and 2012, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value:

#### Financial Assets - Trading Investments:

| 2013     | Level 1        | Level 2      | Level 3 | Total Fair Value |
|----------|----------------|--------------|---------|------------------|
| Equities | \$ 105,934,896 | \$ -         | \$ -    | 105,934,896      |
| Bonds    | -              | 5,977,795    | -       | 5,977,795        |
| Total    | \$ 105,934,896 | \$ 5,977,795 | \$ -    | 111,912,691      |

| 2012     | Level 1       | Level 2       | Level 3 | Total Fair Value |
|----------|---------------|---------------|---------|------------------|
| Equities | \$ 92,092,777 | \$ -          | \$ -    | 92,092,777       |
| Bonds    | -             | 12,176,344    | -       | 12,176,344       |
| Total    | \$ 92,092,777 | \$ 12,176,344 | \$ -    | 104,269,121      |

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

The Fund did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in 2012 or 2013.

## (b) Risk Management

The Fund's investment activities expose it to various types of risk associated with the financial instruments in which it invests. In addition to the risks of investing in the equity markets generally, the Fund is also subject to other risks, including market, foreign currency, interest rate, credit and liquidity risks. These risks and related risk management practices employed by the Fund are discussed below:

### (i) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in being invested in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a weekly basis and positions are maintained within established ranges.

The most significant exposure to market risk is from equity securities. As at December 31, 2013, had the prices on the respective stock exchanges for these securities raised (lowered) by 5%, with all other variables held constant, net assets would have increased (decreased) by approximately \$5,596,000 (approximately 4.93% of net assets) (2012 - \$5,213,500; approximately 4.90% of net assets). In practice, the actual results may differ and the difference could be material.

### (ii) Foreign Currency Risk

Foreign currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The statement of investments identifies all investments denominated in foreign currencies. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value.

The Fund invested approximately 25.6% (2012 — 12.6%) of the investment portfolio in U.S. currency. At December 31, 2013, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets would have increased (decreased) by approximately \$1,452,000 (approximately 1.3% of net assets) (2012 - \$671,000; approximately 0.6% of the investment portfolio). In practice, the actual results may differ and the difference could be material.

### (iii) 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 the Fund invests in interest-bearing financial instruments.

As at December 31, 2013, the Fund had approximately 93.3% of the investment portfolio in equity securities (2012 — 86.3%). Cash and short-term investments earn minimal interest. The Fund also invests in securities which subject the Fund to interest rate risk. As at December 31, 2013, if interest rates increased by 1% with all other variables held constant, the fair value of the securities as shown on the Fund's Statements of Investments would have decreased by approximately \$212,043 (2012 - \$900,498).

### (iv) Credit Risk

Credit risk is the risk that an issuer or a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. All transactions in listed securities are settled (paid for) upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Cash and short-term investments are held by the custodian. As at December 31, 2013, the Fund had a \$5,977,795 exposure to credit risk (December 31, 2012 - \$12,176,344).

## (v) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial obligations. The Fund is exposed to a monthly redemption of units at which time the units of the Fund are redeemed at the current Transactional Net Assets per Unit. Liquidity risk is managed by investing 93.3% of the Fund's assets in investments that are traded in an active market and can be readily disposed (December 31, 2012 — 86.3%).

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at December 31, 2013, the Fund's liquidity risk is considered minimal.

## 11. NORMAL COURSE ISSUER BID PROGRAM ("NCIB Program")

Effective February 6, 2013, the Fund renewed its NCIB to permit the Fund to purchase up to 2,248,541 of the outstanding units on the TSX from time to time. For the year ended December 31, 2013, the Fund repurchased 2,000 units for cancellation under its NCIB Program at an average cost of \$4.24 per unit. The NCIB Program expired on February 5, 2014.

## 12. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS

The brokerage commissions paid for the year ended December 31, 2013 were \$121,000 (2012 \$93,724). The commission were incurred solely for order execution services. The Fund paid \$28,187 in soft dollar commissions for the year ended December 31, 2013 (2012 - nil).

## 13. INCOME TAXES

The fund has non-capital losses which can be carried forward, as follows:

|                | Non-Capital Loss |      |
|----------------|------------------|------|
|                | 2013             | 2012 |
| Carry Forwards | \$ 3,893,656     | \$ - |

## 14. UNITHOLDER MEETINGS

On July 17, 2012, the Fund issued a management information circular informing Unitholders of a special meeting to take place on August 7, 2012. The purpose of the special meeting was to: (a) provide the right for Unitholders to voluntarily elect to receive an unlimited cash redemption of their units at 100% of the net asset value per unit less retraction costs, including a fee per unit of 5% of the net asset value per unit plus applicable taxes paid to the Manager; (b) implement a series of minority Unitholder protections, including a requirement that ordinary and extraordinary resolutions require affirmative votes of 50% and 66-2/3% of beneficial holders - as defined in the amended and restated declaration of trust as of March 7, 2014 (the "Declaration of Trust") - respectively other than beneficial holders who are "Interested Parties", as defined in the extraordinary resolution attached to the management information circular; (c) amend the provisions relating to the termination and replacement of the Manager, including a termination fee equal to 5% of net asset value and reasonable expenses upon termination; (d) remove certain provisions which currently allow the Trustee of the Fund to make changes to the Declaration of Trust without Unitholder approval; and (e) make a number of other amendments to the Declaration of Trust.

In the special meeting on August 7, 2012, Unitholders voted in favour of the extraordinary resolution. On August 17, 2012, the Fund's special retraction price was determined to be \$4.29 per Unit. On August 22, 2012, 21,330,664 Units were redeemed at the Fund's special retraction price. Crown Hill received

# NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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a payment of \$5,483,724 on the special retraction.

On November 26, 2012, the Fund issued a management information circular informing Unitholders of a special meeting to take place on December 18, 2012. The purpose of the special meeting was to: a) seek the approval of Unitholders for the proposed change in manager and trustee from Crown Hill to Artemis; and b) approve the setting of a special retraction date with respect to a special retraction of an aggregate of up to 1,000,000 Units at 100% of net asset value per Unit on the special retraction date.

In the special meeting on December 18, 2012, Unitholders voted in favour of the extraordinary resolution. On January 18, 2013, the Fund's special retraction price was determined to be \$4.355 per Unit. Requests for redemptions were oversubscribed and 1,000,000 Units were redeemed on a pro rata basis.

## 15. CAPITAL MANAGEMENT

The Fund's capital consists solely of Unitholders' equity. The Fund's Manager maintains the Fund's capital in accordance with its investment objectives, strategies and restrictions as detailed in its Declaration of Trust. As disclosed in Note 8, Unitholders' equity consists of Unitholders' equity (total subscriptions less total redemptions calculated at the original subscription price) and deficit. Pursuant to its Declaration of Trust, the Fund is required to distribute all of its net income and net realized capital gains (as calculated for tax purposes); therefore, deficit represents unrealized gains or losses on investments plus any cumulative distributions in excess of cumulative income and realized capital gains, adjusted for the difference between the redemption amounts paid out and the applicable original subscription amounts.

On August 19, 2013, the Fund announced that it had filed a short-form prospectus relating to an offering of transferrable warrants (each, a "Warrant") to Unitholders of the Fund. Unitholders of record, at the close of business on August 29, 2013, will receive one Warrant for each unit of the fund held. Warrants will be exercisable between August 29, 2013 and October 17, 2013, at a subscription price of \$3.67 per unit.

## 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## 17. SUBSEQUENT EVENTS

### Monthly Distributions for 2014

On January 22, 2014, the Fund announced distributions for 2014 of \$0.03 per Unit per month. Each monthly distribution would be paid in Units of the Fund, instead of cash, based on the five-day volume-weighted average trading price of the Units, calculated, in each case, as of the date that is five trading days before the applicable record date. Unitholders of record on the last day of each month of 2014 would be paid distributions on the 15th day (or first business day thereafter) of the ensuing month. In connection with each monthly distribution, outstanding Units of the Fund would trade ex-distribution commencing on the date that is two trading days before the applicable monthly record date.

A copy of the full news release has been filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### Further Revision of Distribution Policy

On February 3, 2014, the Fund announced that the distribution policy had been revised and a cash distribution would be reinstated for the remainder of the year. Additionally, the Fund announced an improvement to its distribution reinvestment plan ("DRIP"). The distribution for the remainder of 2014 is \$0.01 per Unit per month in cash.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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As previously announced, Unitholders of record on the last day of January 2014 were paid a \$0.03 distribution, paid in Units of the Fund (209,757 Units), on the 18th of February 2014. For the remainder of the year, Unitholders of record on the last day of each month will be paid cash distributions of \$0.01 on the 15th day (or first business date thereafter) of the ensuing month.

The Fund also instituted a change to its existing DRIP. Units issued under the program will be issued at a 5% discount to the applicable five-day volume-weighted average trading price of the Units. As a result, Unitholders participating in the plan will be acquiring Units at a discount to the market price of the Fund's Units.

A copy of the full news release has been filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## CORPORATE INFORMATION

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Peter Chodos

John Mills

Michael Newman

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Conor Bill - Director

Trevor Maunder - Director

### OFFICERS OF THE MANAGER/TRUSTEE

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Conor Bill - Chief Executive Officer

Trevor Maunder - Chief Financial Officer

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