



## CITADEL INCOME FUND

(FORMERLY CROWN HILL FUND)

SEMI-ANNUAL REPORT

(UNAUDITED)

JUNE 30, 2010

## **TABLE OF CONTENTS**

---

<b>1</b>	<b>INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE</b>
<b>9</b>	<b>INTERIM FINANCIAL STATEMENTS</b>
<b>10</b>	<b>STATEMENTS OF NET ASSETS</b>
<b>11</b>	<b>STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME</b>
<b>12</b>	<b>STATEMENTS OF CHANGES IN NET ASSETS</b>
<b>13</b>	<b>STATEMENTS OF INVESTMENTS</b>
<b>17</b>	<b>NOTES TO THE FINANCIAL STATEMENTS</b>
<b>27</b>	<b>CORPORATE INFORMATION</b>

## CITADEL INCOME FUND

The units (the “Units”) of Citadel Income Fund (the “Fund”) are listed on The Toronto Stock Exchange under the symbol CTF.UN. Crown Hill Capital Corporation is the trustee (the “Trustee”) and manager (the “Manager”) of the Fund.

<b>INVESTMENT HIGHLIGHTS:</b>	<b>June 30, 2010</b>	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Net assets per Unit <sup>(1)(3)</sup>	\$ <b>5.32</b>	\$ 5.62	\$ 5.36	\$ 7.95	\$ 8.66	\$ 8.37
Market price per Unit <sup>(1)(3)</sup>	\$ <b>4.79</b>	\$ 5.15	\$ 3.97	\$ 7.58	\$ 8.39	\$ 7.80
Trading premium (discount)	<b>(9.92)%</b>	(8.69)%	(25.93)%	(4.61)%	(3.15)%	(6.82)%
Cash distributions per Unit <sup>(3)</sup>	\$ <b>0.2400</b>	\$ 0.4456	\$ 0.6132	\$ 0.6132	\$ 0.6132	\$ 0.6132
Trailing yield <sup>(2)</sup>	<b>5.01%</b>	8.65%	18.14%	8.09%	7.31%	7.86%
Market capitalization (\$ millions)	\$ <b>201.6</b>	\$ 217.0	\$ 7.6	\$ 8.3	\$ 15.4	\$ 22.6
Net assets (\$ millions)	\$ <b>223.8</b>	\$ 237.0	\$ 10.2	\$ 8.7	\$ 15.9	\$ 24.2

(1) Net assets and market price per Unit are based on period end values.

(2) For the interim period trailing yield is based on the last 6 months cash distributions declared expressed as a percentage of market price. For the comparative annual periods trailing yield is based on the respective 12 months cash distributions declared expressed as a percentage of market price.

(3) The 2008, 2007, 2006 and 2005 comparative numbers present the effects of the merger between Crown Hill Dividend Fund (CHDF) and MACCs Sustainable Yield Trust (MACCs) in 2008. On December 29, 2008, Crown Hill Fund (“CHF”) was the new name of the combined fund resulting from the merger. CHDF was deemed to be the acquirer fund given the continuation of the CHDF investment objectives and ongoing management of the Fund. The merger was recorded as a reverse acquisition, since MACCs was the continuing fund. All of the assets of CHDF were transferred to MACCs in exchange for units of MACCs and the assumption by MACCs of all of the liabilities of CHDF. The CHDF unitholders then received 1.1742 units of MACCs for each CHDF unit held. As a result, the number of Units has been increased, with the consequence that the net assets per Unit, market price per Unit, and cash distributions per Unit have been decreased.

## INTERIM MANAGEMENT’S REPORT OF FUND PERFORMANCE

(August 30, 2010)

This interim report for the six months ended June 30, 2010 includes both the interim management’s report of fund performance, containing financial highlights, and the unaudited interim financial statements of Citadel Income Fund.

Holders of Units (the “Unitholders”) may contact us by calling toll-free 1-877-261-9674, by writing to us at Crown Hill Capital Corporation, 141 Adelaide Street West, Suite 1006, Toronto, Ontario, M5H 3L5 or by visiting our websites at either [www.crownhill.ca](http://www.crownhill.ca) or [www.citadelfunds.com](http://www.citadelfunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the investment fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### INVESTMENT OBJECTIVES AND STRATEGIES

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

For the six months ended June 30, 2010

**RISK**

There are a number of risks associated with an investment in the 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 and interest rates and include general business operation risks, any of which may affect the issuers’ income and as a result reduce distributions to its Unitholders and the value of its Units. Diversification and active management by the Fund’s investment manager of the securities held in the portfolio may reduce these risks.

**INCOME TRUST TAX**

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government’s imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly affect Citadel Income Fund. However, the tax will affect some of the holdings within its portfolio.

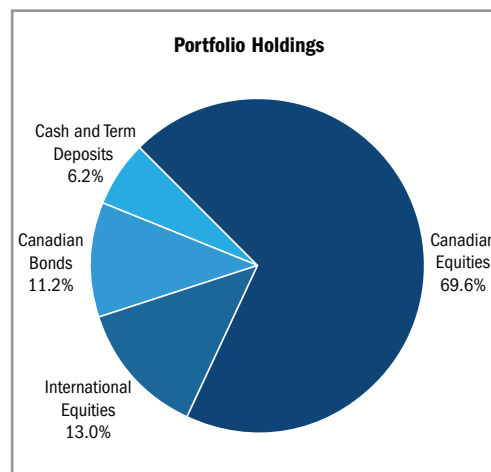
**RESULTS OF OPERATIONS**

Global financial market conditions began to stabilize in early 2010 due to government spending. During the first quarter, the market experienced steady growth until April when speculation about the European debt crisis caused a downturn in economic activity. By the end of the second quarter, the market had declined and the early growth witnessed in the first quarter had faded. The iSharesTSX 60 Index Fund declined by 9.1% in the first half of 2010, compared with a rise of 35.5% in the same period in 2009.

Citadel Income Fund’s net assets decreased to \$223.8 million at June 30, 2010 from \$236.9 million at December 31, 2009 due to distributions paid and an overall market decline that led to lower net assets in the Fund. On a per Unit basis, the Fund’s net assets decreased to \$5.32 per Unit at June 30, 2010 from \$5.62 per Unit at December 31, 2009.

Citadel Income Fund’s market price declined over the first half of 2010 to \$4.79 per Unit from \$5.15 per Unit at December 31, 2009. The Fund’s market price decrease, coupled with its monthly cash distributions, caused a 2.3% loss over the period. The Fund’s net asset value decrease, coupled with its monthly cash distributions, caused a 1.2% loss on a net assets basis over the period.

Total revenue as at June 30, 2010 was \$6.16 million compared to \$1.0 million in the comparative period in 2009 due primarily to the increase in net assets and the size of the Fund due to the 2009 mergers. Total expenses for the first six months of 2010 was \$2.6 million compared to \$0.36 million in the comparative period. Management fees, which are calculated with reference to the Fund’s net asset value, totaled \$1.28 million over the first half of 2010 compared to \$0.18 million during the same period in 2009. Investment management fees, which are calculated with reference to the Fund’s net asset value, totaled \$0.65 million over the first half of 2010 compared to \$0.04 million in the comparative period. The increase in investment management fees is due to the increase in the size of the Fund’s net assets and a payment of \$0.21 million to the former portfolio manager to settle a legal dispute. Overall, expenses increased in each category due mainly to the increase in the size of the Fund.



## INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE

(Continued)

For the six months ended June 30, 2010

After total expenses of \$2.6 million, the Fund generated net investment income of \$3.5 million or \$0.03 per Unit for the six months ended June 30, 2010. By comparison, there was a net investment income of \$0.6 million or \$0.08 per Unit for the same period in 2009. The Fund realized gains of \$6.6 million on the sale of investments and foreign currency in the first half of 2010, which included \$1.6 million received as settlement of the class action lawsuit against an investment by two funds which were predecessors of one of the Previous Citadel Funds. In the comparative period in 2009, the Fund had realized gains of \$1.7 million. In addition to these gains, the Fund had unrealized losses of \$12.9 million at June 30, 2010 compared to unrealized gains of \$1.4 million over the six months ended June 30, 2009. As a result, the Fund experienced a comprehensive loss from operations of \$2.9 million or a loss of \$0.07 per Unit in the first half of 2010 compared to a comprehensive income from operations of \$3.6 million or \$0.48 per Unit in the same time period in 2009.

For the first half of 2010, the Fund paid monthly distributions of \$0.04 per Unit. Distributions totaled \$10.1 million or \$0.24 per Unit compared to \$1.64 million or \$0.21 per Unit in the same time period in 2009.

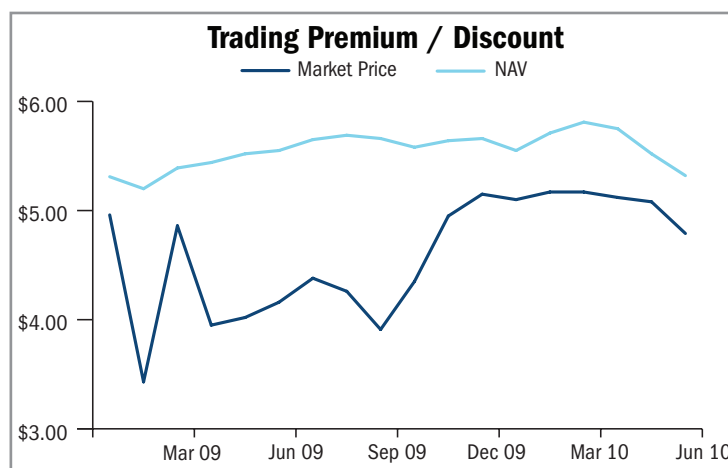
### TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

In the first half of 2010, the Fund's market price traded at an average discount to its net asset value per Unit of 10.06%, compared to 20.84% in the comparative period in 2009.

### RECENT DEVELOPMENTS

During the first half of 2010 we continued to diversify the portfolio away from income trusts that we feel will have difficulty keeping their high payouts after they convert to corporations in 2011. The proceeds of these sales have been used to diversify the portfolio and buy higher yielding equities across various industries in Canada. With the Canadian dollar close to par (U.S. dollar) we have taken advantage of its purchasing power and bought a few strong yielding foreign stocks. Adding global multinational companies (i.e.: Health Care and Consumer Staples) outside of Canada offers an additional element of diversification by providing exposure to businesses not available within the Canadian market which is heavily concentrated in three sectors (Financials, Energy and Materials). Government spending programs initiated in 2009 are now lapsing and the global economy is waning once more. We are not surprised by this development as we have often questioned the sustainability and vigour of the economic recovery. The speed of this slowdown and of the fall in equity markets have rattled investor confidence once again. Western policymakers have committed to fiscal restraint and prudent debt management but the application will be difficult, especially in a slow growth environment. Select Emerging economies will continue to drive the global economy. They will not however be immune to a prolonged slowdown in Western economies. Interest rates and inflation remain low. In the meantime, government deficits and debts are ballooning. Policymakers will eventually have to deal with the inflationary consequences of all this "printing of money". Conversely, Emerging market central bankers are already struggling with the problem and have been raising their key interest rates to control it.

While bonds provided the best returns in this market downturn, we still prefer equities as a long term investment. At current levels, bond yields are too low to meet most investor income requirements. When purchasing bonds, we continue to prefer solid corporates. Furthermore, our bias to defensive equities that provide stable earnings and dividend yields which match bond yields in many cases, should moderate the impact of any potential recession on the portfolio.



## INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE

(Continued)

For the six months ended June 30, 2010

Citadel Income Fund (the "Fund") is the new name of the combined fund resulting from the merger on December 2, 2009 of Crown Hill Fund ("CHF") and 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. The Previous Citadel Funds unitholders received the following number of units of the Fund for each unit held prior to the merger: Premium unitholders received 1.1581 units; Hytes unitholders received 1.7545 units; Citadel S-1 unitholders received 1.8629 units; Stable unitholders received 1.0765 units; and Equal Weight unitholders received 0.8028 units.

Unitholders of record on December 14, 2009 received one warrant for each Fund Unit held on the record date. A total of 42,128,467 warrants were issued. Each warrant entitles the holder thereof to subscribe for and purchase from the Fund one Unit on either December 14, 2010 or December 14, 2011 at a subscription price of \$5.55. The warrants are listed on the TSX under the symbol CTFWT.

On December 29, 2008, Crown Hill Fund ("CHF") was the new name of the combined fund resulting from the merger of Crown Hill Dividend Fund ("CHDF") and MACCs Sustainable Yield Trust ("MACCs"). CHDF was deemed to be the acquirer fund given the continuation of the CHDF investment objectives and ongoing management of the Fund. The merger was recorded as a reverse acquisition, since MACCs was the continuing fund. All of the assets of CHDF were transferred to MACCs in exchange for units of MACCs and the assumption by MACCs of all of the liabilities of CHDF. The CHDF unitholders then received 1.1742 units of MACCs for each CHDF unit held. The merger was done on a tax-free basis.

On January 23, 2009, CHF merged with Fairway Diversified Income and Growth Trust ("Fairway"). CHF was the acquirer fund given the continuation of CHF's investment objectives and ongoing management of CHF. All of the assets of Fairway were transferred to CHF in exchange for units of CHF and the assumption by CHF of all of the liabilities of Fairway. The Fairway unitholders then received 1.30587 units of CHF for each Fairway unit held. The merger was done on a tax-free basis.

### **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the CICA Emerging Issues Committee ("EIC") issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(ies) when determining the fair value of the financial assets and financial liabilities, including derivative instruments. EIC-173, which became effective for the Fund on January 1, 2009, had no material impact on the Fund's net assets or results of operations.

### **Financial Instruments – Disclosures**

On May 29, 2009 the Canadian Accounting Standards Board issued amendments to CICA Handbook Section 3862 ("3862 Amendments"). As a result of these amendments, the Fund is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The 3862 Amendments are applicable for years ending after September 30, 2009. As a result, the Fund implemented the 3862 Amendments in the financial statements for the year ending December 31, 2009 and subsequent periods.

### **Future accounting changes**

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles will be replaced by International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning January 1, 2012. The Fund is currently assessing the impact of IFRS on its financial reporting.

## INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE

(Continued)

For the six months ended June 30, 2010

---

### FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that will derive therefrom. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

### RELATED PARTY TRANSACTIONS

For the six months ended June 30, 2010, the Manager was entitled to an annual fee of 1.00% of the NAV of the Fund, calculated and payable, monthly. This amount totaled \$1,278,320 at June 30, 2010 (of which \$189,545 was payable) compared to \$176,023 in the comparative period (June 30, 2009 - \$25,000 was payable) for the same time period in 2009. All other expenses of the Fund are initially paid by the Manager, which is then reimbursed by the Fund in a reasonable amount of time. Included in these expenses are things such as administrative costs, legal fees and unitholder servicing costs. Administrative costs, which included accounting fees, for the period totaled \$236,911 and consist of a monthly general overhead cost paid to First Paladin Inc., a company related to the Manager, to cover related administrative salaries, employee benefits, general overhead and office supplies. In comparison, administrative costs, which included accounting fees, totaled \$48,586 for the same time period in 2009.

The Fund received total repayments of the loan in the amounts of \$811,672 in principal and \$182,415 in interest during the period. As of June 30, 2010, the undiscounted loan balance was \$9,143,328. As of June 30, 2010, the present value of the expected future annual repayments on the loan using a discount rate of 7% was \$8,450,264.



# INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE

(Continued)

For the six months ended June 30, 2010

## FINANCIAL HIGHLIGHTS

### Net Assets per Unit ("NAPU")

	Six months ended June 30, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
NAPU – beginning of period	\$ 5.62	\$ 5.36	\$ 9.32	\$ 10.17	\$ 9.83	\$ 9.45
<b>Increase (decrease) from operations:</b>						
Total revenue	0.15	0.22	0.28	0.25	0.25	0.26
Total expenses	(0.06)	(0.19)	(0.35)	(0.32)	(0.28)	(0.30)
Realized gains (losses)	0.15	0.19	0.34	1.26	0.99	0.60
Unrealized gains (losses)	(0.31)	0.73	(2.29)	(1.05)	(0.16)	0.51
Total increase (decrease) from operations	\$ (0.07)	\$ 0.95	\$ (2.02)	\$ 0.14	\$ 0.80	\$ 1.07
<b>Distributions:</b>						
From net investment income		-	-	-	-	-
From capital gains		0.14	-	-	-	-
Return of capital		0.31	0.72	0.72	0.72	0.72
<b>Total cash distributions</b>	<b>0.24</b>	0.45	0.72	0.72	0.72	0.72
<b>NAPU – end of period</b>	<b>\$ 5.32</b>	\$ 5.62	\$ 5.36	\$ 9.32	\$ 10.17	\$ 9.83

Net assets per Unit ("NAPU") and cash distributions per Unit are based on the actual number of Units outstanding at the time. The June 30, 2010, December 31, 2009 and 2008 NAPU are based on bid prices and all prior NAPU are based on closing prices. The increase (decrease) from operations is based on the weighted average number of Units outstanding over the financial period. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statements of Changes in Net Assets and accordingly columns may not add.

### Ratios and Supplemental Data

	Six months ended June 30, 2010	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Net assets (\$ 000,000's)	\$ 223.8	\$ 237.0	\$ 10.2	\$ 8.7	\$ 15.9	\$ 24.2
Number of Units outstanding	42,087,556	42,128,467	1,903,247	934,633	1,564,951	2,463,993
Management expense ratio	2.12%	3.35%	4.28%	3.18%	2.93%	3.18%
Portfolio turnover ratio	32.2%	184.36%	41.11%	0.08%	7.81%	4.29%
Trading expense ratio	0.08%	0.39%	0.04%	0.07%	0.06%	0.02%
Closing market price	\$ 4.79	\$ 5.15	\$ 3.97	\$ 8.90	\$ 9.85	\$ 9.16

Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.



# INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE

(Continued)

For the six months ended June 30, 2010

## MANAGEMENT FEES

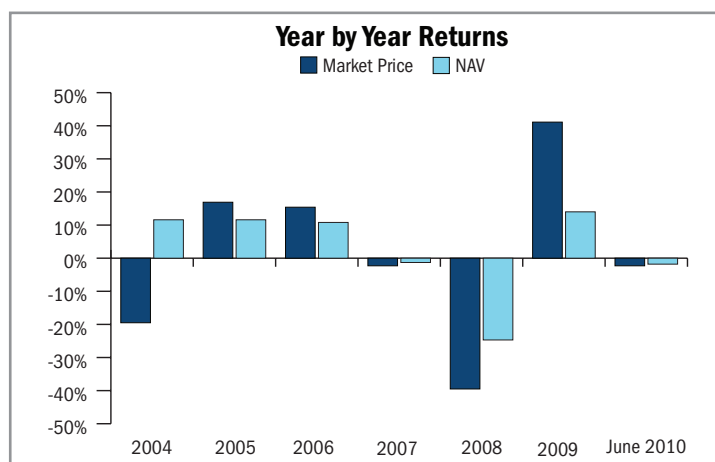
Pursuant to the Amended and Restated Declaration of Trust, in consideration for its services as manager of the Fund, the Manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly in arrears.

The Investment Manager receives an investment management fee payable from the Fund. Jarislowsky, Fraser Ltd. receives a fee of 0.33% per annum of the average net asset value of the assets of the Fund to which it provides investment management services plus applicable taxes. Robson Capital Management Inc. received a fee of 0.25% of the average net asset value of the Fund plus applicable taxes for the period in which it was providing investment management services in 2009.

## PAST PERFORMANCE

Citadel Income Fund's performance numbers represent the annual compound total returns over the period from inception in June 2004 to June 30, 2010 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per Unit plus the reinvestment of all distributions in additional Units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



## ANNUAL COMPOUND RETURNS

	1 Year	3 Year	5 Year	Since inception
Citadel Income Fund (market price)	20.64%	(12.19)%	(3.69)%	(0.92)%
Citadel Income Fund (net assets)	(1.11)%	(10.03)%	(2.59)%	1.50%
iShares S&P/TSX 60 Index Fund	5.00%	(6.10)%	3.58%	6.15%
Composite benchmark <sup>(1)</sup>	15.57%	(9.29)%	0.38%	2.63%

(1) The Composite benchmark consists of a 65% allocation in iShares S&P/TSX Canadian LargeCap 60 Index 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, totaling 100% of the Composite benchmark.

# INTERIM MANAGEMENT'S REPORT OF FUND PERFORMANCE

(Continued)

For the six months ended June 30, 2010

## SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2010

**Transactional Net Assets: \$224,113,039**

Portfolio by Sector	% of Transactional Net Assets
Canadian Equities	
Energy/Pipeline Investments	18.7
Financials Services	17.0
Telecommunications	10.6
Oil & Gas Royalty Trusts	10.4
Industrials	6.0
Consumer Goods and Services	4.5
Materials	3.1
Total Canadian Equities	70.3
Canadian Bonds	11.3
International Equities	13.1
Cash and Equivalents	2.0
Other Assets, Net of Liabilities	3.3
Total Transactional Net Assets	100.0%

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

Royal Bank of Canada	3.6%
Bank of Nova Scotia	3.2%
Crescent Point Energy Corp.	3.1%
Inter Pipeline Fund	3.1%
Canadian Oil Sands Trust	3.0%
Superior Plus Corp.	3.0%
Bonavista Energy Trust	2.9%
Bell Aliant Regional Communications Income Fund	2.8%
Fort Chicago Energy Partners LP	2.8%
Toronto Dominion Bank (The)	2.8%
ARC Energy Trust	2.7%
Keyera Facilities Income Fund	2.5%
Canada Housing Trust No. 1 Series '29'	2.4%

SNC-Lavalin Group Inc.	2.2%
Thomson Reuters Corp.	2.2%
NAL Oil & Gas Trust	1.9%
Manulife Financial Corp.	1.6%
TransCanada Corp.	1.6%
Enbridge Inc.	1.5%
Rogers Sugar Income Fund	1.5%
Bank of Montreal	1.4%
Great-West Lifeco	1.4%
Pembina Pipeline Income Fund	1.4%
Shaw Communications Inc.	1.4%
Boardwalk REIT	1.3%

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at [www.citadelfunds.com](http://www.citadelfunds.com).

**CITADEL INCOME FUND**

---

**INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED**

**JUNE 30, 2010 AND 2009**

## STATEMENTS OF NET ASSETS

As at	June 30, 2010	December 31, 2009
<b>Assets</b>		
Investments, at fair value (note 4)	\$ 211,938,910	\$ 211,622,739
Cash and short-term investments	4,383,109	19,046,829
Receivable from manager (note 5)	8,450,264	9,200,411
Dividend and interest receivable	1,144,066	1,193,775
Receivable from investments sold	-	193,351
	<b>225,916,350</b>	241,257,105
<b>Liabilities</b>		
Distributions payable	1,683,502	1,685,139
Accounts payable and accrued liabilities	428,318	925,867
Payable for investments purchased	-	1,685,550
	<b>2,111,821</b>	4,296,556
<b>Net Assets representing Unitholders' Equity (note 7);</b>	<b>\$ 223,804,529</b>	<b>\$ 236,960,549</b>
<b>Units outstanding (note 6)</b>	<b>42,087,556</b>	42,128,467
<b>Net Assets per Unit (note 3)</b>	<b>\$ 5.32</b>	\$ 5.62

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

Signed on behalf of the Board,



Wayne L. Pushka  
Chief Executive Officer



Davindra Persaud  
Chief Financial Officer

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the six months ended June 30	2010	2009
<b>Revenue</b>		
Dividends	\$ 2,826,107	\$ 448,815
Interest	3,329,245	361,119
Gains on foreign currencies	-	142,927
	<b>6,155,352</b>	952,861
<b>Expenses</b>		
Management fees (note 9)	1,278,320	176,023
Investment Management fees (note 9)	649,033	41,291
Administrative expenses (note 9)	236,911	48,586
Legal fees	148,010	540
Regulatory and listing expenses	90,735	18,070
Unitholder servicing expenses	57,920	4,388
Board and IRC fees	54,127	11,682
Custody, valuation and transfer fees	47,733	32,680
Audit and review fees	47,519	22,715
Transaction costs	4,785	-
	<b>2,615,094</b>	355,975
<b>Net investment income</b>	<b>3,540,258</b>	596,886
<b>Net realized gain on sale of investments (note 4)</b>	<b>6,642,738</b>	1,682,864
<b>Net realized loss on sale of foreign currency</b>	<b>(46,802)</b>	-
<b>Transaction costs (note 11)</b>	<b>(95,612)</b>	(116,608)
<b>Net change in unrealized (loss) gain on investments (note 4)</b>	<b>(12,883,984)</b>	1,408,114
<b>Total results of operations and comprehensive income</b>	<b>\$ (2,843,403)</b>	\$ 3,571,256
<b>Results of operations per Unit <sup>(1)</sup></b>	<b>\$ (0.07)</b>	\$ 0.48

(1) Based on the weighted average number of Units outstanding during the year.

See accompanying notes.

## STATEMENTS OF CHANGES IN NET ASSETS

For the six months ended June 30	2010	2009
<b>Net Assets – beginning of period</b>	<b>\$ 236,960,549</b>	<b>\$ 10,210,504</b>
Operations:		
Net investment income	<b>3,540,258</b>	596,886
Net realized loss on sale of investments	<b>6,642,738</b>	1,682,864
Net change in unrealized gain on investments	<b>(12,883,984)</b>	1,408,114
	<b>(2,843,403)</b>	3,571,256
Capital Unit Transactions: (note 6)		
Fair value of net assets contributed on merger	-	32,740,512
Paid for Units redeemed	<b>(205,067)</b>	(916,395)
	<b>(205,067)</b>	31,824,117
Distributions to Unitholders	<b>(10,107,550)</b>	(1,643,389)
<b>Net Assets – end of period</b>	<b>\$ 223,804,529</b>	<b>\$ 43,962,488</b>

See accompanying notes.

## STATEMENTS OF INVESTMENTS

	As at June 30, 2010					
	Coupon	Maturity	Number of Units held	Cost	Fair Value	% of Net Assets
<b>Canadian Bonds</b>						
407 International Inc., Callable	3.880%	6/16/2015	269,000	268,952	275,602	0.1
AltaLink L.P., Series '05-1'	5.020%	11/21/2012	1,050,000	1,102,500	1,094,870	0.5
Canada Housing Trust No. 1, Series '29'	2.750%	9/15/2014	5,246,000	5,209,094	5,290,118	2.4
Canadian Imperial Bank of Commerce, Callable	Variable Rate	4/30/2020	1,010,000	1,007,172	1,029,002	0.5
Canadian Natural Resources Ltd., Callable	4.950%	1/6/2015	700,000	741,450	744,911	0.3
Enbridge Inc., Callable	4.770%	2/9/2019	1,060,000	1,089,195	1,091,761	0.5
GE Capital Canada Funding Co., Callable	4.550%	1/17/2017	1,000,000	1,013,000	1,011,492	0.5
George Weston Ltd.	5.050%	10/3/2014	530,000	563,241	559,899	0.3
Great-West Lifeco Inc., Callable	Variable Rate	6/21/2067	1,095,000	1,122,212	1,141,632	0.5
Industrial Alliance Insurance & Financial Services Inc., Callable	Variable Rate	6/30/2019	1,000,000	1,028,773	1,042,847	0.5
Loblaw Companies Ltd., Callable	5.220%	6/18/2020	530,000	529,634	546,713	0.2
Manulife Bank of Canada	4.680%	12/9/2016	1,000,000	1,019,219	1,038,366	0.5
Manulife Financial Delaware L.P., Callable	Variable Rate	12/15/2026	150,000	146,100	151,057	0.1
Metro Inc.	4.980%	10/15/2015	308,000	324,844	328,473	0.1
Royal Bank of Canada, Callable	Variable Rate	6/15/2020	1,100,000	1,102,310	1,126,915	0.5
Shaw Communications Inc., Callable	5.650%	1/10/2019	1,000,000	1,036,070	1,035,392	0.5
Sun Life Financial Inc., Callable	Variable Rate	1/6/2036	1,100,000	1,140,715	1,140,199	0.5
Suncor Energy Inc., Series '4', Callable	5.800%	5/22/2018	1,030,000	1,106,275	1,120,557	0.5
Terasen Inc.	5.560%	9/15/2014	1,200,000	1,289,516	1,297,386	0.6
Thomson Reuters Corp., Callable	6.000%	3/31/2016	1,000,000	1,125,700	1,118,696	0.5
Tim Hortons Inc., Series '1', Callable, Restricted	4.200%	1/6/2017	184,000	183,967	186,873	0.1
Union Gas Ltd., Callable	4.640%	6/30/2016	1,580,000	1,667,294	1,668,188	0.7
Wells Fargo Financial Canada Corp.	3.970%	3/11/2014	1,000,000	1,020,524	1,021,977	0.5
Wells Fargo Financial Canada Corp., Callable	4.330%	6/12/2013	150,000	154,420	155,701	0.1
<b>Total Canadian Bonds</b>				24,992,177	25,218,627	11.3

<b>Total Canadian Bonds as at December 31, 2009</b>				21,981,012	21,716,969	9.2
---	--	--	--	------------	------------	-----



## STATEMENTS OF INVESTMENTS

(Continued)

	As at June 30, 2010				As at December 31, 2009			
	Number of Units held	Cost	Fair value	% of Net Assets	Number of Units held	Cost	Fair value	% of Net Assets
<b>Canadian Equities</b>								
<b>Oil and Gas Royalty Trusts</b>								
Altagas Income Trust	-	-	-		35,000	542,989	656,950	
ARC Energy Trust	304,712	6,154,308	6,005,874		424,712	8,585,323	8,468,757	
Baytex Energy Trust	-	-	-		348,704	9,669,692	10,297,229	
Bonavista Energy Trust	283,005	5,879,810	6,452,514		498,005	10,346,724	11,090,571	
Canadian Oil Sands Trust	248,787	7,622,813	6,707,298		291,787	8,940,354	8,689,417	
Enerplus Resources Fund	-	-	-		345,983	8,360,303	8,338,190	
NAL Oil & Gas Trust	397,868	5,080,774	4,201,486		397,868	5,080,774	5,434,877	
		24,737,705	23,367,172	10.4		51,526,159	52,975,991	22.4
<b>Pipeline/Energy Investments</b>								
Boralex Power Income Fund	-	-	-		324,100	1,366,192	1,322,328	
Cameco Corp.	47,500	1,281,628	1,075,400		-	-	-	
Cenovus Energy Inc.	76,800	2,001,900	2,104,320		-	-	-	
Crescent Point Energy Corp.	184,700	7,094,407	6,857,911		224,700	8,630,824	8,864,415	
Enbridge Inc.	69,700	3,218,621	3,455,726		5,000	203,200	242,750	
EnCana Corp.	56,500	1,922,950	1,821,560		-	-	-	
Fort Chicago Energy Partners LP	608,300	5,985,982	6,332,403		930,500	9,156,322	9,277,085	
Inter Pipeline Fund	581,400	6,186,092	6,947,730		611,400	6,505,291	6,603,120	
Keyera Facilities Income Fund	207,200	4,588,000	5,540,528		241,500	5,334,485	5,878,114	
Nexen Inc.	40,100	967,785	838,892		-	-	-	
Pembina Pipeline Income Fund	179,700	3,071,696	3,209,442		119,700	2,070,107	2,091,159	
Transcanada Corp.	102,263	3,637,127	3,640,563		56,883	2,039,719	2,056,320	
		39,956,188	41,824,475	18.7		35,306,140	36,335,291	15.3
<b>Materials</b>								
Chemtrade Logistics Income Fund	-	-	-		305,700	2,992,803	3,356,586	
Genivar Income Fund	79,500	2,178,475	2,028,045		5,000	129,330	135,250	
Goldcorp Inc.	12,000	450,281	559,320		12,000	450,281	495,720	
Labrador Iron Ore Royalty Trust	48,000	1,938,240	2,049,600		48,000	1,938,240	2,089,920	
Noranda Income Fund	-	-	-		737,400	1,747,638	1,858,248	
PotashCorp	24,000	2,496,503	2,200,320		-	-	-	

## STATEMENTS OF INVESTMENTS

(Continued)

Westshore Terminals Income Fund	-	-	-		49,000	473,184	697,760	
		<b>7,063,499</b>	<b>6,837,285</b>	<b>3.1</b>		7,731,476	8,633,484	3.6
<b>Telecommunications</b>								
Bell Aliant Regional Communications Income Fund	<b>250,400</b>	<b>6,697,478</b>	<b>6,365,168</b>		250,400	6,698,942	6,998,680	
Cogeco Cable Inc.	<b>65,000</b>	<b>2,310,952</b>	<b>2,215,200</b>		-	-	-	
Corus Entertainment Inc.	<b>108,500</b>	<b>2,043,205</b>	<b>2,027,865</b>		108,500	2,043,205	2,142,875	
Research in Motion Ltd.	<b>48,500</b>	<b>3,281,444</b>	<b>2,538,005</b>		-	-	-	
Rogers Communications Inc.	<b>75,000</b>	<b>2,556,832</b>	<b>2,608,500</b>		-	-	-	
Shaw Communications Inc.	<b>161,700</b>	<b>3,414,124</b>	<b>3,099,789</b>		120,800	2,578,177	2,609,280	
Thomson Reuters Corp.	<b>129,700</b>	<b>4,452,484</b>	<b>4,941,570</b>		90,200	3,079,770	3,057,780	
		<b>24,756,519</b>	<b>23,796,097</b>	<b>10.6</b>		14,400,094	14,808,615	6.2
<b>Financials Services</b>								
Bank of Montreal	<b>53,000</b>	<b>2,876,709</b>	<b>3,060,220</b>		53,000	2,876,709	2,956,870	
Bank of Nova Scotia	<b>145,300</b>	<b>7,007,959</b>	<b>7,125,512</b>		125,200	6,074,915	6,158,588	
Boardwalk Reit	<b>71,822</b>	<b>2,601,070</b>	<b>2,873,598</b>		71,822	2,633,640	2,641,613	
Canadian Reit	<b>58,644</b>	<b>1,549,005</b>	<b>1,627,957</b>		58,644	1,550,089	1,589,839	
Citadel Income Fund, Warrants, 2011/12/02	-	-	-		21,804	5,087	2,835	
Copernican British Banks Income Fund	<b>366,400</b>	<b>320,427</b>	<b>494,640</b>		366,400	320,427	608,224	
Firm Capital Mortgage Investment Fund	-	-	-		89,100	917,399	930,204	
Great-West Lifeco Inc.	<b>125,800</b>	<b>3,326,391</b>	<b>3,026,748</b>		108,100	2,855,734	2,899,242	
Manulife Financial Corp.	<b>237,398</b>	<b>4,605,843</b>	<b>3,667,799</b>		60,000	1,170,536	1,158,000	
Power Financial Corp.	<b>66,900</b>	<b>2,046,287</b>	<b>1,825,032</b>		26,900	820,383	833,631	
RioCan Reit	-	-	-		329,645	6,009,782	6,540,157	
Royal Bank of Canada	<b>160,000</b>	<b>8,839,344</b>	<b>8,112,000</b>		70,000	3,904,544	3,945,200	
Toronto-Dominion Bank (The)	<b>92,300</b>	<b>5,914,592</b>	<b>6,366,854</b>		40,000	2,591,168	2,637,600	
		<b>39,087,627</b>	<b>38,180,360</b>	<b>17.1</b>		31,730,413	32,902,003	13.2
<b>Industrials</b>								
Canadian National Railway Co.	<b>28,400</b>	<b>1,532,671</b>	<b>1,732,684</b>		-	-	-	
IBI Income Fund	-	-	-		148,300	2,423,717	2,476,610	
Livingston International Income Fund	-	-	-		630,600		5,971,782	
SNC-Lavalin Group Inc.	<b>113,600</b>	<b>5,550,735</b>	<b>4,840,496</b>		-	-	-	
Superior Plus Corp.	<b>524,600</b>	<b>6,831,866</b>	<b>6,704,388</b>		574,600	7,483,016	8,394,906	
		<b>13,915,272</b>	<b>13,277,568</b>	<b>5.9</b>		15,203,767	16,843,298	7.1

## STATEMENTS OF INVESTMENTS

(Continued)

<b>Consumer Goods and Services</b>							
Colabor Group Inc.	-	-	-		101,200	1,059,564	1,119,272
George Weston Ltd.	8,700	593,690	633,360		-	-	-
Jean Coutu Group (PJC) Inc. (The)	64,000	636,546	525,440		-	-	-
Loblaw Companies Ltd.	61,551	2,068,552	2,376,484		61,200	2,055,710	2,069,784
Shoppers Drug Mart Corp.	70,200	2,755,151	2,310,282		-	-	-
Rogers Sugar Income Fund	705,700	3,034,506	3,401,474		705,700	3,034,510	3,422,645
Tim Hortons Inc.	23,900	764,501	814,512		-	-	-
		9,852,946	10,061,552	4.5		6,149,784	6,611,701
<b>Total Canadian Equities</b>		<b>159,369,756</b>	<b>157,344,509</b>	<b>70.3</b>		162,047,832	169,110,383
							71.4

<b>International Equities</b>							
3M Co.	-	-	-		2,600	201,293	225,116
Automatic Data Processing Inc.	60,400	2,719,237	2,583,408		44,900	2,041,590	2,015,106
AXA, ADR	112,400	2,413,533	1,821,488		-	-	-
BP PLC, ADR	49,300	2,955,512	1,511,936		33,000	1,972,945	2,005,504
CVS Caremark Corp.	60,600	1,988,714	1,886,176		60,600	1,988,714	2,045,666
Emerson Electric Co.	48,000	2,160,028	2,225,954		-	-	-
HSBC Holdings PLC, ADR	48,200	2,824,664	2,331,010		32,800	1,965,718	1,960,683
Johnson & Johnson	40,600	2,719,706	2,547,198		29,800	2,010,268	2,009,723
National Grid PLC, ADR	54,400	2,977,782	2,124,450		36,500	2,046,530	2,078,160
Pepsico Inc.	39,100	2,499,488	2,530,787		31,600	2,032,769	2,013,180
Pfizer Inc.	140,900	2,602,257	2,133,615		27,900	697,572	532,039
Philip Morris International Inc.	52,000	2,652,443	2,532,465		38,600	1,982,710	1,947,644
Procter & Gamble Co.	38,200	2,423,158	2,431,534		30,800	1,967,752	1,956,724
Vodafone Group PLC, ADR	123,700	2,904,763	2,715,753		82,900	1,995,074	2,005,842
<b>Total International Equities</b>		<b>33,841,285</b>	<b>29,375,774</b>	<b>13.1</b>		20,902,935	20,795,387
<b>Transaction Costs (note 8)</b>		<b>(112,486)</b>				<b>(41,203)</b>	
<b>Total Investments</b>		<b>218,090,732</b>	<b>\$211,938,910</b>	<b>94.7</b>		204,890,577	\$211,622,739
<b>Other Assets, Net of Liabilities</b>			<b>11,865,619</b>	<b>5.3</b>			25,337,810
<b>Total Net Assets</b>			<b>\$223,804,529</b>	<b>100.0%</b>			\$236,960,549
							100.0%

See accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

---

## 1. THE FUND

### Establishment of the Fund

The Citadel Income Fund (the "Fund") is the new name of the combined fund resulting from the merger on December 2, 2009 of Crown Hill Fund ("CHF") and Citadel Premium Income Fund ("Premium"), Citadel HYPES 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. The Previous Citadel Funds unitholders received the following number of units of the Fund for each unit held prior to the merger: Premium unitholders received 1.1581 units; Hytes unitholders received 1.7545 units; Citadel S-1 unitholders received 1.8629 units; Stable unitholders received 1.0765 units; and Equal Weight unitholders received 0.8028 units.

Unitholders of record on December 14, 2009 received one warrant for each Fund Unit held on the record date. A total of 42,128,467 warrants were issued. Each warrant entitles the holder thereof to subscribe for and purchase from the Fund one Unit on either December 14, 2010 or December 14, 2011 at a subscription price of \$5.55. The warrants are listed on the TSX under the symbol CTF.WT.

On December 29, 2008, CHF was the new name of the combined fund resulting from the merger of Crown Hill Dividend Fund ("CHDF") and MACCs Sustainable Yield Trust ("MACCs"). CHDF was deemed to be the acquirer fund given the continuation of the CHDF investment objectives and ongoing management of the Fund. The merger was recorded as a reverse acquisition, since MACCs was the continuing fund. All of the assets of CHDF were transferred to MACCs in exchange for units of MACCs and the assumption by MACCs of all of the liabilities of CHDF. The CHDF unitholders then received 1.1742 units of MACCs for each CHDF unit held. The merger was done on a tax-free basis.

On January 23, 2009, Crown Hill Fund ("CHF") merged with Fairway Diversified Income and Growth Trust ("Fairway"). CHF was the acquirer fund given the continuation of CHF's investment objectives and ongoing management of CHF. All of the assets of Fairway were transferred to CHF in exchange for units of CHF and the assumption by CHF of all of the liabilities of Fairway. The Fairway unitholders then received 1.30587 units of CHF for each Fairway unit held. The merger was done on a tax-free basis.

### Predecessor Funds

The Crown Hill Dividend Fund was an investment trust established under the laws of the Province of Ontario on May 19, 2004. On May 31, 2004, CHDF completed an initial public offering of 2,500,000 units at \$10 per unit. Subsequently an option granted to the agents was exercised for 193,473 units at \$10 per unit. CHDF's units were listed on The Toronto Stock Exchange under the symbol PBK.UN. CHDF began operations on May 31, 2004 when it completed its initial public offering. The manager of CHDF was Crown Hill Capital Corporation. Effective June 24, 2005 the name of CHDF changed from Profit Booking Blue Chip Trust to Crown Hill Dividend Fund.

MACCs Sustainable Yield Trust was an investment fund established under the laws of the Province of Ontario on January 28, 2005. On February 18, 2005, MACCs completed an initial public offering of 3,250,000 units at \$10 per unit. Subsequently an option granted to the agents was exercised for 280,000 units at \$10 per unit. The units were listed on The Toronto Stock Exchange under the symbol MYT.UN. MACCs began operations on February 18, 2005 when it completed its initial public offering. The manager of MACCs was MACCs Administrator Inc. On February 1, 2008 Crown Hill Capital Corporation became the manager of MACCs.

Fairway Diversified Income and Growth Trust was an investment fund established under the laws of the Province of Ontario on February 26, 2004. The units were listed on The Toronto Stock Exchange under the ticker symbol FDT.UN. On June 29, 2007, Fairway merged with Fairway Investment Grade Income Fund and Global Preferred Securities Trust; at that time, all three were managed by Fairway Advisors Inc., which became JovFunds Management Inc. on September 1, 2007. On January 20, 2009 Crown Hill Capital Corporation became the manager of Fairway.

June 30, 2010

---

Citadel Premium Income Fund was a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of June 6, 2006 and amended and restated July 13, 2006. Premium commenced operations on July 20, 2006, when it completed a merger of three Citadel Funds – MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Income Fund (“MMI&G Merging Funds”). On June 3, 2009 Citadel Fund Administration LP an entity in which CHF held a beneficial interest, became the administrator of Premium.

At Special Meetings of the unitholders of the MMI&G Merging Funds held on September 14, 2005 and October 12, 2005, unitholders approved a special resolution authorizing the board of directors of such funds to merge with other similar Citadel Funds. Subsequently, the board of directors determined that each of the MMI&G Merging Funds had similar investment objectives and that such merger would result in lower general and administration expenses on a combined basis.

Effective the close of business on July 19, 2006, MYDAS Fund, Citadel Multi-Sector Income Fund and Citadel Income & Growth Fund were merged into a new fund, Citadel Premium Income Fund, with unitholders of the MMI&G Merging Funds receiving units of Citadel Premium on a relative net asset value basis. The merger was recorded using the purchase method of accounting for business combinations with Citadel Premium issuing 61,000,000 units in exchange for the net assets of each of the MMI&G Merging Funds on July 19, 2006.

Citadel HYTES Fund was a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of February 27, 2001. The Fund commenced operations upon completion of its initial public offering on April 11, 2001. On June 3, 2009 Citadel Fund Administration LP became the administrator of Hytes.

Citadel S-1 Income Trust Fund was a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2000. Citadel S-1 commenced operations upon completion of its initial public offering on October 6, 2000. On June 3, 2009 Citadel Fund Administration LP became the administrator of Citadel S-1.

Citadel Stable S-1 Income Fund was a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 6, 2004. Stable commenced operations upon completion of its initial public offering on February 15, 2005. On June 3, 2009 Citadel Fund Administration LP became the administrator of Stable.

Equal Weight Plus Fund was a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 22, 2005 and amended and restated January 23, 2006. Equal Weight commenced operations upon completion of its initial public offering on February 28, 2006. On June 3, 2009 Citadel Fund Administration LP became the administrator of Equal Weight.

## **2. INVESTMENT OBJECTIVES OF THE FUND**

The investment objectives of the Fund are:

- (i) to provide Unitholders with a stable stream of monthly distributions; and
- (ii) to preserve and potentially enhance the net asset value of the Fund.

June 30, 2010

**3. 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 reporting period. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

**(a) 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 that are not traded in an active market (for example: 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 supportable 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.

On January 20, 2009, the Canadian Accounting Standards Board issued Emerging Issues Committee ("EIC") Abstract 173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 supplements Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 wherein it states that fair value takes into account the credit quality of a financial instrument. The EIC affirms that an entity's own credit risk (in the case of financial liabilities) and a counterparty's credit risk (in the case of financial assets) should be taken into account in determining the Fair Value of Financial Assets and Financial Liabilities, including derivative instruments.

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 incorporate appropriate levels of credit risk.

**(b) Investment transactions and income recognition**

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

**(c) Foreign exchange**

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.

**(d) Distributions**

Distributions to Unitholders are recorded by the Fund when declared.

**(e) Transaction costs**

Transaction costs are expensed as incurred.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

June 30, 2010

### (f) Application of CICA Handbook Section 3855

For purposes of preparing its financial statements, the Fund values its investments pursuant to Section 3855 of the CICA Handbook as outlined above in Note 3(a); the resulting net assets balance is referred to as net assets. For all other purposes, including the processing of unitholder transactions, the value of its investments that trade in an active market continues 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 net asset value per Unit is computed by dividing the net asset value of the Fund by the total number of its Units outstanding. A reconciliation of net asset value to net assets follows:

As at June 30, 2010	Net assets	Net assets per Unit
Transactional Net Assets	\$ 224,113,039	\$ 5.33
Difference as a result of adopting Section 3855	(308,510)	(0.01)
Net Assets	\$ 223,804,529	\$ 5.32

As at December 31, 2009	Net assets	Net assets per Unit
Transactional Net Assets	\$ 237,516,303	\$ 5.63
Difference as a result of adopting Section 3855	(555,754)	(0.01)
Net Assets	\$ 236,960,549	\$ 5.62

### (g) New accounting changes

On May 29, 2009 the Canadian Accounting Standards Board issued amendments to CICA Handbook Section 3862 ("3862 Amendments"). As a result of these amendments, the Fund is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (Level 1, Level 2 and Level 3 inputs as defined in the standard). The 3862 Amendments are applicable for years ending after September 30, 2009. As a result, the Fund implemented the 3862 Amendments in the financial statements for the year ending December 31, 2009 and subsequent periods. Please see Note 10 for further details.

### (h) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA Emerging Issues Committee issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(ies) when determining the fair value of the financial assets and financial liabilities, including derivative instruments. EIC-173, which became effective for the Fund on January 1, 2009, had no material impact on the Fund's net assets or results of operations.

### (i) Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles (GAAP) will be replaced by International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning January 1, 2012. The Fund is currently assessing the impact of IFRS on its financial reporting.



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

June 30, 2010

## 4. INVESTMENT PORTFOLIO

The following tables summarize movements in investments during the six months ended June 30, 2010 and June 30, 2009:

### Investments at cost

	2010	2009
Investments at cost – beginning of period	\$ 204,890,577	\$ 9,071,084
Investments made during the period	82,115,051	58,396,659
Investments acquired from Fairway on merger	-	32,740,512
Dispositions during the period, at cost	(68,914,896)	(59,540,361)
Investments at cost – end of period	\$ 218,090,732	\$ 40,667,894

### Change in unrealized appreciation (depreciation) of investments

	2010	2009
Investments at fair value – end of period	\$ 211,938,910	\$ 41,251,317
Investments at cost – end of period	218,090,732	40,667,894
Unrealized appreciation (depreciation) of investments – end of period	(6,151,822)	583,423
Unrealized appreciation (depreciation) of investments – beginning of period	6,732,162	(824,691)
Change in unrealized appreciation (depreciation) of investments	\$ (12,883,984)	\$ 1,408,114

### Net realized gain on sale of investments

	2010	2009
Proceeds of investments sold	\$ 75,557,634	\$ 61,223,225
Cost of investments sold	(68,914,896)	(59,540,361)
Net realized gain on investments	\$ 6,642,738	\$ 1,682,864

The securities from the former Fairway were acquired at a cost equal to their fair value as at the date of the merger, January 23, 2009. The securities from the “Previous Citadel Funds” were acquired at a cost equal to their fair value as at the date of the merger, December 2, 2009. The securities from the pre-existing Crown Hill Fund are recorded at historic cost. See Note 8.

## 5. RECEIVABLE FROM MANAGER

On January 20, 2009, the Fund made a loan (the “Loan”) to the parent of Crown Hill Capital Corporation in the amount of \$995,000 to enable it to complete the acquisition of 2193322 Ontario Inc., the manager and trustee of Fairway, so as to be able to effect the merger of Fairway (the “Fairway Merger”) with the Fund. The loan bore interest at prime plus 2%, which was calculated and paid monthly. The Fund received \$33,162 on this loan in 2009. The loan was being repaid in equal monthly principal payments of \$20,000 beginning in February 2009. Prior to the Fairway Merger, the Manager appointed Robson Capital Management Inc. as investment manager of the Fund. The Loan was repaid in full on December 18, 2009.

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 3, 2009, five of the funds in the Citadel Group of Funds merged with the Fund (see Note 1).

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

June 30, 2010

On December 18, 2009, the Fund sold its interest in the units of CH Fund Administration LP to Crown Hill. In connection with this purchase, the Fund received \$18,690,000 in cash and received a promissory note (the "Note") from Crown Hill in the amount of \$9,955,000. The Note has an initial term of seven years and may be extended for an additional term of up to seven years on at least 365 days' notice. It bears interest on all outstanding amounts at a rate equal to prime plus 2% per annum. The Fund received \$16,228 on this loan in 2009. The Note provides that Crown Hill will be obligated to apply: (i) the tax-adjusted amount of all redemption charges and fees; and (ii) at least 90% of the tax-adjusted amount of all net management fees from the Fund and any other funds managed by Crown Hill to the repayment of the principal and interest due on the Note. It provides for a right of set-off against the management fees and redemption amounts otherwise payable to Crown Hill as well as recourse to the other assets of the company.

The Fund received total repayments of the loan in the amounts of \$811,672 in principal and \$182,415 in interest during the period. As of June 30, 2010, the undiscounted loan balance was \$9,143,328. As of June 30, 2010, the present value of the expected future annual repayments on the loan using a discount rate of 7% was \$8,450,264.

### 6. 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 Asset Value per Unit (see Note 3(f)) less any retraction costs.

The following unit transactions took place during the six months ended June 30, 2010 and June 30, 2009.

#### Units Issued and Outstanding

As at June 30	2010	2009
Balance of Units outstanding - beginning of period	<b>42,128,467</b>	1,903,247
Units issued to the Fairway unitholders	-	6,148,799
Units cancelled or redeemed during the period	<b>(40,911)</b>	(234,554)
Balance of Units outstanding - end of period	<b>42,087,556</b>	7,817,492

Due to the conversion from CHDF to MACCs on December 29, 2008 (see Note 1), the number of units was increased, with the result that the net asset value per unit has been decreased. To be comparable, the NAV per unit for prior years for Crown Hill Dividend Fund must be divided by 1.1742.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

June 30, 2010

## 7. UNITHOLDERS' EQUITY

Unitholders' equity is comprised of Unitholders' capital and retained earnings. The changes in Unitholders' capital and retained earnings during the six months ended June 30, 2010 and June 30, 2009 are summarized as follows:

### Net realized gain on sale of investments

As at June 30	2010	2009
Unitholders' capital – beginning of period	\$ 233,844,749	\$ 12,013,845
Redemption of Units	(205,067)	(2,157,903)
Fair value of net assets contributed on merger	-	32,740,512
Unitholders' capital – end of period	\$ 233,639,682	\$ 42,596,454

As at June 30	2010	2009
Retained earnings (deficit) – beginning of period	\$ 3,115,800	\$ (1,803,341)
Results from operations for the period	(2,843,403)	3,616,564
Distributions to Unitholders	(10,107,550)	(1,643,389)
Excess of net proceeds over cost of units redeemed (cost of units redeemed over net proceeds of issuance)	-	1,241,508
Retained earnings (deficit) – end of period	\$ (9,835,153)	\$ 1,411,342

As at June 30	2010	2009
Unitholders' capital – end of period	\$ 233,639,682	\$ 42,596,454
Retained earnings (deficit) – end of period	(9,835,153)	1,411,342
Unitholders' equity – end of period	\$ 223,804,529	\$ 44,007,796

## 8. TAXATION

The Fund qualifies as a "mutual fund trust" within the meaning of the Income Tax Act (Canada). The Fund is subject to applicable federal and provincial taxes on the amount of its 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 net realized capital gains are distributed to Unitholders.

Income from the Citadel Contracts will be taxed in the hands of a corporation indirectly owned by the Fund and after-tax income will flow through to the Fund as dividends. A Canadian Unitholder, if an individual, upon receiving these dividend distributions from the fund, will be entitled to claim the dividend tax credit available for eligible dividends. On June 3, 2009, with the investment in CH Fund Administration LP, the Fund became a Specified Investment Flow-Through ("SIFT") Trust and CH Fund Administration LP become a non-portfolio investment. Non-portfolio earnings, which includes generally any income earned from non-portfolio investments, excluding dividends, will be considered to be SIFT income and will be taxable in the Fund.

As a result of the Fairway merger being done on a tax-free basis for the Unitholders, the tax cost of the current securities that were held at January 23, 2009 is now the fair value of each security as at the date of the merger, January 23, 2009. The total adjusted cost base of all securities of the Fund for tax purposes is \$316,000 less than the cost for accounting purposes.

For tax purposes, transaction costs continue to be added to the average cost (for purchases) and reduced from the sale proceeds (for sales). The total of the transaction costs incurred on the purchase of the securities held on December 31, 2009 is shown as a reduction of cost on the Statements of Investments.

The Citadel Merger, as a result of it being done on a taxable basis for the Unitholders, the tax cost is the market price on December 2, 2009.

June 30, 2010

---

**9. FUND EXPENSES**

The Fund is responsible for all expenses incurred. All expenses of the Fund are initially paid by the Manager, who is then reimbursed by the Fund in a reasonable amount of time.

Operating expenses include the Manager's fees, Investment Manager's fees, administrative costs, unitholder servicing costs and any other cost directly related to the operation of the Fund. Of these expenses, the Manager is entitled to an annual fee of 1.00% of the Transactional Net Asset Value of the Fund, calculated and payable monthly. For the six months ended June 30, 2010 this amount totaled \$1,278,320 (six months ended June 30, 2009 - \$176,023) of which \$189,545 (June 30, 2009 - \$25,000) was payable at June 30, 2010. Starting on January 16, 2009, Robson Capital Management Inc. was appointed the Investment Manager and was entitled to an annual fee of 0.25% of the Transactional NAV of the Fund, calculated and payable monthly. On July 20, 2009, Jarislowsky, Fraser Ltd. was appointed the Investment Manager of the Fund assets excluding the investment in CH Fund Administration LP and was entitled to an annual fee of 0.33% of the Transactional NAV of the Fund excluding the approximate value of the investment in CH Fund Administration LP. For the six months ended June 30, 2010, the investment management fee totaled \$649,033 (six months ended June 30, 2009 - \$41,291), which included \$213,904 paid to terminate the Investment Management Agreement with Robson Capital Management.

Administrative costs for the six months totaled \$236,911 (six months ended June 30, 2009 - \$48,586) and consist of a monthly general overhead cost paid to First Paladin Inc., to cover related administrative salaries, employee benefits, general overhead and office supplies. Unitholder servicing costs for the period totaled \$57,920 (six months ended June 30, 2009 - \$4,388) which was made up of payments to service providers for the filing of press releases and SEDAR filings. Legal fees in the six months ended June 30, 2010 were \$148,010 compared to \$540 in the same period in 2009.

**10. FINANCIAL INSTRUMENTS AND 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 interest rate risk, currency risk, credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

**Financial Instruments**

CICA 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; (iii) Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

June 30, 2010

The following tables present as at June 30, 2010, and December 31, 2009, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value:

<b>Financial assets – trading investments</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>June 30, 2010 Total Fair Value</b>
Equities	\$ 186,720,283	-	-	\$ 186,720,283
Bonds	-	\$ 25,218,627	-	\$ 25,218,627
Warrants	-	-	-	-
Total	\$ 186,720,283	\$ 25,218,627	-	\$ 211,938,910

<b>Financial assets – trading investments</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>December 31, 2009 Total Fair Value</b>
Equities	\$ 189,902,935	-	-	\$ 189,902,935
Bonds	-	\$ 21,716,969	-	\$ 21,716,969
Warrants	\$ 2,835	-	-	\$ 2,835
Total	\$ 189,905,770	\$ 21,716,969	-	\$ 211,622,739

### 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 investment 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 June 30, 2010, had the prices on the respective stock exchanges for these securities raised (lowered) by 10%, with all other variables held constant, net assets would have increased (decreased) by approximately \$19,000,000 (approximately 8.5% of net assets). In practice, the actual results may differ and the difference could be material.

### 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 Statements 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 invests approximately 14% of the investment portfolio in U.S. currency. At June 30, 2010, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets would have decreased (increased) by approximately \$1,550,000 (approximately 0.7% of net assets). In practice, the actual results may differ and the difference could be material.

### 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.

The Fund invests approximately 80% of the Fund in equity securities. Cash and short-term investments earn minimal interest. The loan receivable bears interest at prime plus 2%.

June 30, 2010

---

**Credit Risk**

Credit risk is the risk that an issuer or a counter party 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.

The Fund invests approximately 80% of the Fund in equity securities. Cash and short-term investments are held by the custodian. Loan receivable is collateralized by the assets of the Manager, Crown Hill Capital Corporation, including management fees, redemption payments and other assets of the Manager. As at June 30, 2010, the Fund has a \$33,668,891 exposure to credit risk.

**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 NAV per Unit. Liquidity risk is managed by investing 80% of the Fund's assets in investments that are traded in an active market and can be readily disposed. Approximately 4% of the net assets of the Fund are invested in a loan receivable which is an illiquid investment.

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at June 30, 2010, the Fund's liquidity risk is considered minimal.

**11. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS**

The brokerage commissions fees paid for the six months ended June 30, 2010 were \$95,612 (six months ended June 30, 2009 - \$116,608). The commissions were incurred solely for order execution services. The Fund does not pay any soft dollar commissions.

**12. 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 7, Unitholders' equity consists of Unitholders' capital (total subscriptions less total redemptions calculated at the original subscription price) and Retained earnings. 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 Retained earnings 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.

**13. COMPARATIVE NUMBERS**

Prior period numbers have been reclassified to conform with the current period's presentation.

## CORPORATE INFORMATION

---

### MANAGER/TRUSTEE

Crown Hill Capital Corporation  
141 Adelaide St. West, Suite 1006  
Toronto, Ontario M5H 3L5

Telephone: 416-361-9673  
Toll Free: 1-877-261-9674  
Fax: 416-361-0634

Website: [www.citadelfunds.com](http://www.citadelfunds.com)  
Email: [investorrelations@citadelfunds.com](mailto:investorrelations@citadelfunds.com)

### LEGAL COUNSEL

McMillan LLP  
Brookfield Place, Suite 4400  
181 Bay Street  
Toronto, Ontario M5J 2T3

### AUDITORS

Ernst & Young LLP  
Ernst & Young Tower  
222 Bay Street  
Toronto, Ontario M5K 1J7

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Citadel Income Fund Units: **CTFun**

### INVESTMENT MANAGER

Jarislowky, Fraser Ltd.  
20 Queen Street West, Suite 3100  
Toronto, Ontario M5H 3R3

### INDEPENDENT REVIEW COMMITTEE

Mark Maxwell  
John Campbell  
Andrew Fleming  
Mark Arthur

### DIRECTORS OF THE MANAGER/TRUSTEE

Wayne Pushka – Director  
Michael Burns – Independent Director  
Gary Van Nest – Independent Director

### OFFICERS OF THE MANAGER/TRUSTEE

Wayne Pushka – Chief Executive Officer  
Davindra Persaud – Chief Financial Officer

### CUSTODIAN

CIBC Mellon Global Securities Services Company  
320 Bay Street, 6th Floor  
Toronto, Ontario M5H 4A6

### TRANSFER AGENT

Computershare Investor Services Inc.  
100 University Avenue, 11th Floor  
Toronto, Ontario M5J 2Y1





141 Adelaide St. West Suite 1006, Toronto, ON M5H 3L5  
Tel: (877) 261-9674 | Fax: (416) 361-0634  
Website: [www.citadelfunds.com](http://www.citadelfunds.com)

