

CITADEL INCOME FUND

ANNUAL REPORT 2011

DECEMBER 31, 2011

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CITADEL INCOME FUND

The units of Citadel Income Fund (the "Fund") are listed on The Toronto Stock Exchange ("TSX") under the symbol CTF.UN. Crown Hill Capital Corporation ("Crown Hill") is the trustee (the "Trustee") and manager (the "Manager") of the Fund. Jarislowsky Fraser Ltd. is the investment manager (the "Investment Manager") of the Fund.

INVESTMENT HIGHLIGHTS:

For the years ended December 31	**2011**	2010	2009	2008	2007
Net assets per unit (1)(3)	$ **5.30**	$ 5.74	$ 5.62	$ 5.36	$ 7.95
Market price per unit (1)(3)	$ **3.88**	$ 5.21	$ 5.15	$ 3.97	$ 7.58
Trading premium (discount)	**(26.83)%**	(9.23)%	(8.69)%	(25.93)%	(4.61)%
Cash distributions per unit (3)	$ **0.36**	$ 0.48	$ 0.45	$ 0.61	$ 0.61
Trailing yield (2)	**9.28%**	9.21%	8.65%	18.14%	8.09%
Market capitalization ($ millions)	$ **116.06**	$ 167.57	$ 216.96	$ 7.56	$ 8.30
Net assets ($ millions)	$ **158.62**	$ 184.67	$ 236.76	$ 10.20	$ 8.70

(1) Net assets and market price per unit are based on year end values.

(2) Trailing yield is based on the respective 12 months' cash distributions declared expressed as a percentage of market price.

(3) The 2008 and 2007 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.

MANAGEMENT REPORT OF FUND PERFORMANCE

(March 30, 2012)

This annual report for the year ended December 31, 2011 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Income Fund.

To obtain a copy of the Fund's proxy voting disclosure record or quarterly portfolio disclosure, unitholders may contact us by calling 416-361-9673 or toll free 1-877-261-9674, by writing to us at Crown Hill Capital Corporation, 1300 Yonge Street, Suite 300, Toronto, Ontario, M4T 1X3, or by visiting our website at www.crownhill.ca. To obtain a copy of the Fund's financial statements, management report of fund performance, or final warrant offering prospectus, unitholders may contact us using one of the aforementioned methods or visit the SEDAR website at www.sedar.com. To obtain a copy of the Fund's proxy voting policies and procedures, unitholders should contact us directly.

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 Fund, a market capitalization, excluding control positions, of $400 million.

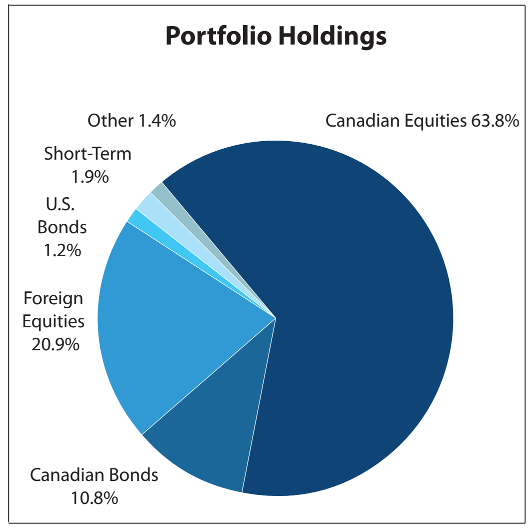
RISK

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, interest rates, and 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. The tax on income trusts does not directly affect Citadel Income Fund. However, the tax does affect some of the holdings within its portfolio.

RESULTS OF OPERATIONS



2011 was a difficult and volatile year on both the political and economic fronts. The European debt crisis continues to be the primary concern given how interconnected the global banking system is. For the most part, central bankers have maintained low interest rates as a way of encouraging growth, sometimes turning to long-term bond purchases to keep market rates low. In the meantime, government deficits continue to expand. Europe's GDP declined, nearing recession, with little hope for change, especially after emerging market growth slowed as well. North America has been far less affected by these developments, as only 16% of American and 10% of Canadian exports are destined for Europe. Moreover, Americans will soon be looking inward, preoccupied with the run up to and outcome of the 2012 Presidential election.

Valuations in many areas remain compelling at current prices. Moreover, the low interest rate policy currently in force means that a 2%, ten-year, government bond would provide an investor a negative return after inflation and taxes. At this time, many of the Fund's holdings provide dividend yields which far exceed those of government yields. Interest rates are expected to remain low which should continue to support equity markets.

Citadel Income Fund's conservative and diversified portfolio is well-suited for this environment. The portfolio is structured for longevity and consistency; holdings remain attractively valued and provide investors a reasonable and sustainable yield. Equities continue to be favoured over bonds, especially those of non-cyclical companies which provide healthy, regular dividends and patiently wait for growth. In bonds, solid corporate issuers are preferred which provide much better yields than those of governments.

Citadel Income Fund's net assets decreased to $158.62 million at December 31, 2011 from $184.67 million at December 31, 2010 due primarily to repurchases made under the normal course issuer bid program of $20.89 million throughout 2011 and distributions to unitholders of $10.85 million. This was partially offset by an increase in net assets from operations of $0.31 million and proceeds from the exercise of warrants of $5.36 million. The Fund's net assets per unit decreased to $5.30 per unit at December 31, 2011 from $5.74 per unit at December 31, 2010. The decrease in the Fund's net assets per unit, coupled with its monthly cash distributions, resulted in a negative total return of 1.39% over the year (2010 - positive total return of 10.68%).

Excluding the dilutive effect of the warrant offering program, the Fund's net assets per unit decreased to $5.37 per unit at December 31, 2011 from $5.74 per unit at December 31, 2010. The decrease in the Fund's net assets per unit, coupled with its monthly cash distributions, resulted in a negative total return of 0.17% over the year.

The Fund's market price per unit also decreased to $3.88 per unit at December 31, 2011 from $5.21 per unit at December 31, 2010. The decrease in the Fund's market price per unit, coupled with its monthly cash distributions, resulted in a negative total return of 18.62% over the year (2010 - positive total return of 10.49%).

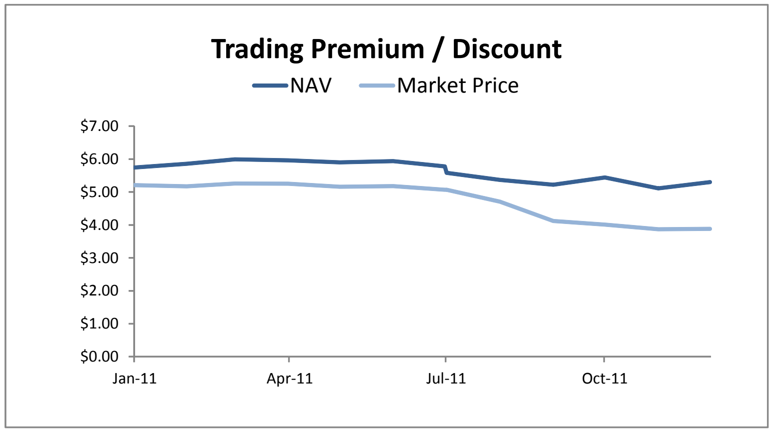
Total revenue in 2011 was $6.54 million compared to $11.20 million in 2010. The change in revenue was primarily due to the decrease in portfolio holdings and a corresponding decrease in distribution income received from this smaller portfolio. Total expenses in 2011 were $4.51 million compared to $4.98 million in 2010, again as a result of a smaller portfolio and net asset value. Management fees, which are calculated in reference to the Fund's net asset value, decreased to $1.88 million in 2011 compared to $2.46 million in 2010. Investment management fees, which are calculated in reference to the Fund's net asset value, decreased to $0.58 million in 2011 compared to $0.87 million in 2010. In 2011, the Fund generated net investment income of $2.03 million or $0.07 per unit compared to $6.21 million or $0.15 per unit in 2010.

The Fund realized gains of $3.79 million on the sale of investments in 2011 and experienced a change in unrealized depreciation in the value of investments of $5.53 million. In 2010, the Fund had realized gains on the sale of investments of $12.02 million and experienced a change in unrealized appreciation in the value of investments of $5.81 million. The Fund also had a net realized gain on foreign currency of $0.01 million in 2011 compared to a loss of $0.08 million in 2010. As a result, the Fund experienced net income from operations of $0.31 million or a gain of $0.01 per unit in 2011 compared to net income from operations of $23.97 million or $0.57 per unit in 2010.

For the years ended December 31, 2011 and 2010, Citadel Income Fund paid total cash distributions of $0.36 per unit based on monthly distributions of $0.03 per unit.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2011, the Fund's market price traded at an average discount to its net asset value per unit of 14.8%, compared to an average discount of 8.74% in 2010. With this discount, the Fund repurchased 3,629,400 units for cancellation under its normal course issuer bid ("NCIB") program at an average cost of $5.75 per unit. The NCIB program, which commenced on February 1, 2010, provides liquidity and market price support for unitholders and permits the Fund to repurchase units in the open market for cancellation.



RECENT DEVELOPMENTS

Regulatory Issues

On March 4, 2011, preliminary prospectuses for offerings of warrants for both Citadel Income Fund and Energy Income Fund (the "Funds") were filed by the Manager. Staff of the Ontario Securities Commission ("Staff") recommended against receipting the prospectuses due to the widely publicized acquisition (the "Acquisition") by Crown Hill Fund of the administration contracts of the Citadel Group of Funds in June 2009 and the subsequent merger of some of those funds with the Crown Hill Fund, forming the Citadel Income Fund. At the time, Staff expressed their concerns with the Acquisition and the disclosure made in the June 3, 2009 information circular. After the Manager made changes to the proposed reorganization to address Staff's concerns, a new information circular was issued, was approved by unitholders and the reorganization was partially completed to create the Citadel Income Fund.

Despite the Manager's response, Staff continued to raise the same concerns with the Acquisition nearly two years later, and used those same arguments to recommend that the Director of Investment Funds deny the receipting of the prospectus in relation to the warrant offering.

On April 14, 2011, the Manager and the Funds availed themselves of the Opportunity to be Heard (the "OTBH") before the Director of Investment Funds. The OTBH meeting was adjourned and reconvened on May 11, 2011 with another (acting) Director. In the meantime, on May 6, 2011, Staff served the Manager and its President with an enforcement notice relating to the Acquisition. On May 11, 2011, the second (acting) Director upheld Staff's recommendation.

On May 31, 2011, the Manager and the Funds sought a hearing and review (the "Hearing and Review") of the Director's decision (pursuant to subsection 8(2) of the Securities Act) before the Ontario Securities Commission (the "Commission"). The application was heard on July 12, 13, and 14, 2011. Three business days prior to the Hearing and Review, July 7, 2011, Staff issued a Notice of Hearing and Statement of Allegations against the Manager and its President. It is alleged in the Statement of Allegations that the Citadel Acquisition was undertaken primarily in the interests of the Manager rather than the Fund, contrary to s.116 of the Securities Act. This was the same submission made by Staff at the OTBH and then at the Hearing and Review. In addition, Staff allege that the acquisition of the management contracts for the

Fairway Diversified Income and Growth Trust and subsequent merger in January 2009 was also primarily in the interests of the Manager. Finally, Staff allege that certain amendments to the Declaration of Trust of MACCs Sustainable Yield Trust (the predecessor trust to Crown Hill Fund) to increase the management fee, grant broader powers to the Manager and to adopt less restrictive investment requirements, were also undertaken primarily to benefit the Manager.

Immediately following the issuance of the Notice of Hearing, Staff sought to stay the Hearing and Review on the basis that the Commission should await the outcome of the enforcement proceeding commenced on July 7, 2011, as the proceedings largely involved the same issues. The Commission dismissed Staff's motion.

On August 4, 2011, the Commission released its order, granting the Manager's application on the Hearing and Review and overturning the acting Director's decision to deny the receipting of the preliminary prospectuses. The Commission ruled and found that there were insufficient grounds to justify the acting Director's decision and the Staff's recommendations. The Commission ruled that, contrary to Staff's submission and the Director's decision, it was not apparent that there was sufficient evidence to justify a refusal to issue a receipt for the prospectuses on the grounds that the business of the Funds may not be conducted with integrity.

The Funds filed final prospectuses in accordance with the Commission's order.

On August 8, 2011, the Manager and its President attended before the Commission and requested the earliest available hearing dates to address the allegations made by Staff in the enforcement proceeding. Staff resisted setting hearing dates and the presiding Commissioner ordered that the parties return for a pre-hearing conference on September 21, 2011. This second pre-hearing conference was again reconvened and on October 13, 2011, hearing dates were set with an enforcement proceeding scheduled to start on May 9, 2012.

Warrant Offering

On September 27, 2011, the Fund announced that it had filed a final short form prospectus relating to its warrant offering. Each unitholder of record on October 7, 2011 received one new warrant for each unit held. 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 i) March 8, 2012, or ii) such date which is 20 business days from the date the embedded call feature in the warrants is exercised by the Fund in accordance with the terms of the warrant offering.

The exercise of warrants by warrant holders provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, reduce the management expense ratio, and increase the trading liquidity of the Fund's units.

As at December 31, 2011, 1,373,020 warrants were exercised for total proceeds of $5,354,778. On March 9, 2012, upon completion of the warrant offering program, 24,591,569 warrants were exercised for total proceeds of $95,907,119.

Annual Redemption Privilege

Under the Declaration of Trust, the maximum number of units redeemable at any point in time 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 by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). The public float as determined on November 30, 2010 was 32,408,000 units and 10% of the public float was 3,240,800 units. From January 1, 2011 to December 31, 2011, the Fund repurchased 3,629,400 units for cancellation under its normal course issuer bid program with an average cost of $5.75 per unit. The Maximum Redemption Amount was reached prior to the end of the twelve-month period ending November 30, 2011 and therefore no additional units were redeemable under the 2011 annual redemption privilege.

Normal Course Issuer Bid Program

Effective February 1, 2012, the Fund renewed its normal course issuer bid program to permit the Fund to purchase up to 3,026,052 of the outstanding units on the TSX from time to time. The Fund may purchase units in the market for cancellation if the Manager determines that such purchases provide liquidity to unitholders. Under the normal course issuer bid program, the Fund may purchase up to 3,026,052 units, representing approximately 10% of the public float of 30,260,515 units. Additionally, the Fund may not purchase more than 607,645 units in any 30-day period, representing 2% of the issued and outstanding units. If these purchases are made, they will be made in accordance with applicable regulations over a twelve-month period ending January 31, 2013. Units purchased will be cancelled. Effective March 15, 2012, the normal course issuer bid was amended to increase the number of transferable, redeemable units that may be purchased under the bid from 3,026,052 units to 5,168,986 units, being 10% of the public float of the issued and outstanding units as of March 12, 2012. The number of units purchased under the normal course issuer bid program from February 1, 2012 to March 30, 2012 was 1,641,200 units with a weighted average price paid of $4.04 per unit.

Partial Redemption Feature

On February 14, 2012, the Fund announced that up to 5,000,000 Units of the Fund may be redeemed on March 29, 2012 for an amount per unit equal to the net asset value retraction price ("NAV Retraction Price") as of March 23, 2012. The NAV Retraction Price is an amount equal to 100% of the net asset value per unit less any retraction costs. The retraction costs will not exceed 0.9% of the net asset value per unit. Beneficial holders of units had to submit their request to redeem units by no later than March 20, 2012. Requests for redemptions were oversubscribed and all 5,000,000 units were redeemed. The units were redeemed on a pro rata basis at a redemption price of $4.71 per unit.

Harmonized Sales Tax Introduction

On July 1, 2010, the Harmonized Sales Tax ("HST") was introduced in the province of Ontario. The Fund is subject to HST in Ontario at a rate of 13% in 2011 compared to a rate of 5% in 2010. The Fund pays an adjusted HST based on the distribution of unitholders and the value of their holdings in the different tax jurisdictions. The Fund will recover $183,129 of HST paid in 2011, receivable as of the year ended December 31, 2011. For the year ended December 31, 2010, the Fund had HST receivable of $58,195.

Future Accounting Changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS"). On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") made the decision to extend the deferral of the mandatory adoption of IFRS for investment companies applying Accounting Guideline AcG-18, Investment Companies, for an additional year to January 1, 2014. This extends the previous two-year deferral of IFRS to three years as compared to other publicly accountable entities. Accordingly, the Fund's financial statements will not be affected by IFRS until January 1, 2014.

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, 2011, management fees totaled $1,883,928 (2010 - $2,458,427), of which $128,308 was payable at December 31, 2011 (2010 - $121,927). 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.

Legal expenses for the year ended December 31, 2011 totaled $962,110 (2010 - $466,644). This includes $288,203 (2010 - $79,520) in legal fees incurred on behalf of the Manager and a director of the Manager in accordance with an indemnification provision contained in the Declaration of Trust. The Fund also maintains insurance for the benefit of the Manager and the directors of the Manager against these types of expenses. The Fund is seeking reimbursement from the insurer for the legal fees incurred.

Administrative expenses for the year ended December 31, 2011 totaled $482,148 (2010 - $519,272). As part of these expenses, the Fund is paying a general overhead cost to First Paladin Inc. (a company under common control with the Manager). First Paladin Inc. received $30,000 per month plus applicable taxes in 2011 (2010 - $30,000 per month) to cover related administrative salaries, employee benefits, general overhead, and office supplies.

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 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. For the year ended December 31, 2011, the principal of the Note was reduced by $4,077,239 and interest payments of $218,176 were received. As at December 31, 2011, the undiscounted loan balance and the present value of the expected future annual repayments on the Note were equal and totaled $2,275,175 (2010 - $6,352,414).

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.

Net Assets per Unit ("NAPU")

For the years ended December 31	2011	2010	2009	2008	2007
NAPU — beginning of year (1)	$ 5.74	$ 5.62	$ 5.36	$ 9.32	$ 10.17
Increase (decrease) from operations:					
Total revenue	0.21	0.27	0.22	0.28	0.25
Total expenses	(0.14)	(0.12)	(0.19)	(0.35)	(0.32)
Realized gains (losses)	0.12	0.29	0.19	0.34	1.26
Unrealized gains (losses)	(0.18)	0.14	0.73	(2.29)	(1.05)
Total increase (decrease) from operations (2)	$ 0.01	$ 0.57	$ 0.95	$ (2.02)	$ 0.14
Distributions:					
From net investment income	0.04	0.17	-	-	-
From capital gains	0.09	0.20	0.14	-	-
Return of capital	0.23	0.11	0.31	0.72	0.72
Total cash distributions	0.36	0.48	0.45	0.72	0.72
NAPU — end of year	$ 5.30	$ 5.74	$ 5.62	$ 5.36	$ 9.32

(1) Net assets per Unit ("NAPU") and cash distributions per unit are based on the actual number of units outstanding at the time. The NAPU are based on bid prices. Prior to 2008, NAPU are based on closing prices.

(2) 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

For the years ended December 31	2011	2010	2009	2008	2007
Total net asset value ($000,000's)	$ 158.62	$ 184.67	$ 236.76	$ 10.20	$ 8.70
Number of units outstanding (000's)	29,912	32,163	42,128	1,903	935
Management expense ratio (1)	2.64%	2.08%	3.35%	4.28%	3.18%
Portfolio turnover ratio (2)	6.44%	48.91%	184.36%	41.11%	0.08%
Trading expense ratio (3)	0.02%	0.08%	0.39%	0.04%	0.07%
Closing market price	$ 3.88	$ 5.21	$ 5.15	$ 3.97	$ 8.90

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

(2) 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 net asset 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.

(3) Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the year.

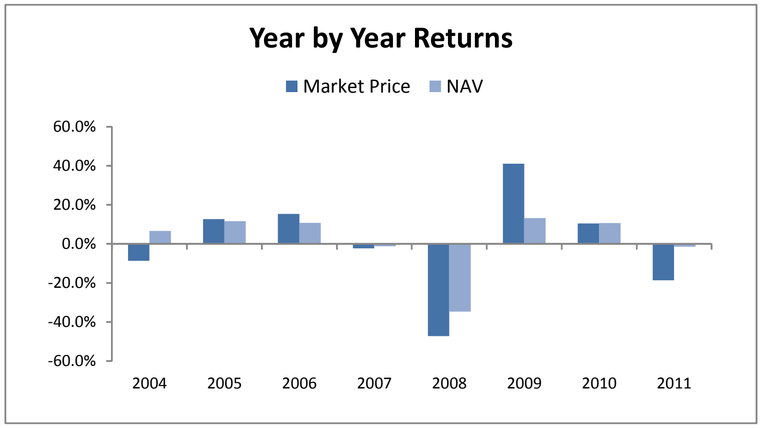
MANAGEMENT FEES

Pursuant to the Amended and Restated Declaration of Trust dated December 2, 2010, 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. 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 Fund plus applicable taxes, calculated and payable monthly, to which it provides investment management services.

PAST PERFORMANCE

Citadel Income Fund's performance numbers represent the annual compound total returns over the year from inception in June 2004 to December 31, 2011 (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

In the table below are the annual compound returns for Citadel Income Fund based on the market price and net assets per unit for the periods indicated to December 31, 2011.

	1-Year	3-Year	5-Year	Since Inception
Citadel Income Fund (market price)	(18.62)%	8.25%	(8.18)%	(3.31)%
Citadel Income Fund (net assets)	(1.39)%	7.32%	(4.46)%	0.64%
Citadel Income Fund (net assets excluding warrants) (1)	(0.17)%	7.76%	(4.23)%	0.81%
iShares S&P/TSX 60 Index Fund	(9.21)%	10.54%	0.76%	7.64%
Composite benchmark (2)	(3.93)%	9.92%	1.76%	6.61%

(1) This calculation attributes no rate of return to the warrant proceeds.

(2) The Composite benchmark consists of a 65% allocation in iShares S&P/TSX 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.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2011

Total Net Assets: $158,615,364

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. The next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2012. Quarterly updates are available at www.crownhill.ca.

Portfolio by Sector	% of Total Net Assets
Canadian Equities	
Pipeline/Energy Investments	19.6
Financial Services	15.2
Telecommunications	10.2
Consumer Goods & Services	8.3
Oil & Gas Corporations	4.7
Materials	4.6
Ongoing Business Trusts	1.2
Total Canadian Equities	63.8
Canadian Bonds	10.8
U.S. Bonds	1.2
Foreign Equities (U.S., U.K., France)	20.9
Other Assets, Net of Liabilities	1.9
Short-Term Investments	1.4
Total Net Assets	100.0%

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

Toronto-Dominion Bank	4.3%
Royal Bank of Canada	4.3%
Bank of Nova Scotia	3.5%
Lavalin Group Inc.	2.7%
Cenovus Energy Inc.	2.7%
Enbridge Inc.	2.6%
Transcanada Corp.	2.4%
National Grid PLC, ADR	2.0%
Bonavista Energy Corp.	2.0%
Rogers Communications Inc., CL B	2.0%
Philip Morris International Inc.	2.0%
Cogeco Cable Inc. Sub VTG	1.9%
Vodafone Group PLC, ADR	1.8%

Pfizer Inc.	1.8%
Johnson & Johnson Inc.	1.7%
Automatic Data Processing Inc.	1.7%
Thomson Reuters Corp.	1.7%
Canadian National Railway Co.	1.7%
Colgate-Palmolive Co.	1.7%
Shoppers Drug Mart Corp.	1.6%
Procter & Gamble Co.	1.6%
Manulife Financial Corp.	1.6%
BP PLC, ADR	1.6%
BCE Inc.	1.6%
Pepsico Inc.	1.5%

CAUTION REGARDING 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. This includes 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, foreign exchange rates, and stock market volatility. Actual results, performance, or achievement could differ materially from those expressed in or implied by these forward-looking statements. Accordingly, no assurances can be given that any of these events anticipated by the forward-looking statements will transpire or occur or that if they do, what benefits (including the amount of proceeds) will be derived 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.

CITADEL INCOME FUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Citadel Income Fund (the "Fund") have been prepared by Crown Hill Capital Corporation ("Crown Hill") and approved by the Board of Directors of Crown Hill (the "Board"). Crown Hill is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

Crown Hill 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 carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of Crown Hill and its Board of Directors has appointed the external audit firm of Ernst & Young 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 Audit Committee to discuss its findings.

Robert Parent
Chief Financial Officer
Crown Hill Capital Corporation

Kevin Ho
Vice-President, Finance
Crown Hill Capital Corporation

March 30, 2012

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of **Citadel Income Fund**

We have audited the accompanying financial statements of Citadel Income Fund, which comprise the statements of investments and net assets as at December 31, 2011 and 2010, and the statements of operations and changes in net assets for the years then ended, and 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 audits. We conducted our audits 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 the auditors' 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, the auditors 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 my management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits 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, 2011 and 2010, and results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

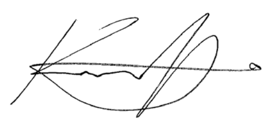
March 30, 2012

STATEMENTS OF NET ASSETS

As at December 31	2011	2010
Assets		
Investments at fair value	**$ 153,340,134**	$ 174,222,884
Cash and cash equivalents	**4,437,177**	6,109,365
Loan receivable (Note 5)	**2,275,175**	5,870,901
Dividends and interest receivable	**786,683**	820,640
Prepaid expenses	**230,970**	101,319
Receivable for warrants exercised	**6,119**	-
	161,076,258	187,125,109
Liabilities		
Distributions payable	**897,366**	1,286,530
Accounts payable and accrued liabilities (Note 9)	**537,928**	418,726
Payable for investments purchased	**1,025,600**	750,000
	2,460,894	2,455,256
Net Assets Representing Unitholders' Equity (Note 8)	**$ 158,615,364**	$ 184,669,853
Units Outstanding (Note 7)	**29,912,208**	32,163,257
Net Assets per Unit (Note 4)	**$ 5.30**	$ 5.74

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

Robert Parent
Chief Financial Officer



Kevin Ho
Vice-President, Finance

STATEMENTS OF OPERATIONS

For the years ended December 31	2011	2010
Investment Income		
Dividend income	$ 5,494,514	$ 5,370,085
Interest income	1,050,381	5,825,414
Total Investment Income	6,544,895	11,195,499
Expenses		
Management fees (Note 9)	1,883,928	2,458,427
Legal fees	962,110	466,644
Investment management fees (Note 10)	577,431	868,156
Administrative expenses (Note 9)	482,148	519,272
Regulatory and listing expenses	116,390	80,087
Audit and review fees	100,574	80,820
Custody, valuation, and transfer fees	85,229	106,032
Insurance expense	89,318	43,123
Unitholder servicing expenses	87,835	59,432
Independent review committee fees	55,719	72,563
Board fees	42,477	52,672
Porfolio transaction costs	30,118	174,199
Net Expenses	4,513,277	4,981,427
Net Investment Income	2,031,618	6,214,072
Net Realized Gain on Sale of Investments (Note 6)	3,793,919	12,023,082
Net Realized Gain (Loss) on Sale of Foreign Currency	5,724	(76,882)
Net Change in Unrealized Appreciation (Depreciation) in Value of Investments (Note 6)	(5,525,656)	5,811,204
Increase in Net Assets from Operations	$ 305,605	$ 23,971,476
Increase in Net Assets from Operations per Unit (1)	$ 0.01	$ 0.57

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

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

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31		2011		2010
Net Assets — Beginning of Year	**$**	**184,669,853**	$	236,960,549
Operations:				
Net investment income		**2,031,618**		6,214,072
Net realized gain on sale of investments		**3,793,919**		12,023,082
Net realized gain (loss) on sale of foreign currency		**5,724**		(76,882)
Net change in unrealized appreciation (depreciation) in value of investments		**(5,525,656)**		5,811,204
		305,605		23,971,476
Capital Unit Transactions: (Note 8)				
Proceeds from exercise of warrants		**5,361,347**		14,191
Proceeds from distribution reinvestment plan		**23,494**		-
Paid for units redeemed		**(20,893,739)**		(56,851,952)
		(15,508,898)		(56,837,761)
Distributions to Unitholders: (Note 8)				
From net investment income		**(1,158,291)**		(6,731,917)
From capital gains		**(2,852,580)**		(8,195,720)
Return of capital		**(6,840,325)**		(4,496,774)
		(10,851,196)		(19,424,411)
Decrease in Net Assets for the Year		**(26,054,489)**		(52,290,696)
Net Assets — End of Year	**$**	**158,615,364**	$	184,669,853
Distributions per Unit	**$**	**0.36**	$	0.48

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

STATEMENTS OF INVESTMENTS

	As at December 31, 2011					
	Coupon	Maturity	Par Value	Cost	Fair Value	% of Net Assets
Canadian Bonds						
Bank of Nova Scotia	4.100%	06/08/2017	$ 315,000	$ 318,936	$ 337,916	0.2
Bell Canada	4.400%	03/16/2018	377,000	376,683	401,396	0.3
Bell Canada	4.950%	05/19/2021	141,000	140,484	152,785	0.1
Caise Centrale Desjardins	3.502%	10/05/2017	320,000	320,000	330,940	0.2
Canadian Imperial Bank of Commerce	Variable Rate	11/02/2020	1,000,000	995,671	1,005,025	0.6
Capital Desjardins Inc., Series “H” SR NT	Variable Rate	11/23/2020	500,000	500,000	509,586	0.3
Capital Desjardins Inc., Series “J”	Variable Rate	12/15/2026	132,000	132,000	135,645	0.1
Cogeco Cable Inc.	5.150%	11/16/2020	325,000	324,373	337,277	0.2
Enbridge Inc.	4.770%	09/02/2019	927,000	952,532	1,024,497	0.6
GE Capital Canada Funding Co.	4.550%	01/17/2017	1,000,000	1,018,333	1,060,878	0.7
Great West Lifeco Inc.	4.650%	08/13/2020	280,000	280,000	291,501	0.2
Husky Energy Inc.	5.000%	03/12/2020	1,000,000	1,029,434	1,098,137	0.7
Industrial Alliance Insurance	Variable Rate	06/30/2019	1,000,000	1,028,773	1,034,256	0.7
Intact Financial Corp., Series “4”	4.700%	08/18/2021	219,000	218,880	222,817	0.1
Loblaws Companies Ltd.	6.500%	01/22/2029	530,000	552,446	585,922	0.4
Manulife Bank of Canada	4.680%	09/12/2016	1,000,000	1,019,219	1,060,081	0.7
Pembina Pipeline Corp., Series “1”	4.890%	03/29/2021	210,000	210,000	229,444	0.1
Quebecor Media Inc.	7.375%	01/15/2021	750,000	750,000	738,047	0.5
Rogers Communications Inc.	4.700%	09/29/2020	1,000,000	999,450	1,046,442	0.7
Shaw Communications Inc.	5.650%	10/01/2019	1,000,000	1,036,070	1,093,339	0.7
Sun Life Financial Inc., Series “B”	Variable Rate	06/01/2036	1,100,000	1,140,715	1,127,255	0.7
Suncor Energy Inc., Series “4”	5.800%	05/22/2018	1,030,000	1,106,275	1,187,429	0.7
Telus Corporation	5.050%	12/04/2019	1,000,000	1,017,186	1,100,464	0.7
Transcanada Pipelines Ltd.	3.650%	12/15/2021	1,000,000	1,025,600	1,021,778	0.6
Total Canadian Bonds				16,493,060	17,132,857	10.8

	As at December 31, 2010					
	Coupon	Maturity	Par Value	Cost	Fair Value	% of Net Assets
Canadian Bonds						
Bank of Nova Scotia	4.100%	8/6/2017	$ 1,000,000	$ 1,012,500	$ 1,023,396	0.6
Caisse centrale Desjardins du Quebec	3.502%	5/10/2017	320,000	320,000	312,763	0.2
Canadian Imperial Bank of Commerce, Callable	3.150%	11/2/2020	1,000,000	995,671	978,858	0.5
Capital Desjardin Inc., Series ‘H’, Callable	3.797%	11/23/2020	500,000	500,000	499,061	0.3
Cogeco Cable Inc., Callable	5.150%	11/16/2020	325,000	324,373	322,677	0.2
Enbridge Inc., Callable	4.770%	2/9/2019	1,060,000	1,089,195	1,100,806	0.6
GE Capital Canada Funding Co., Callable	4.550%	1/17/2017	1,000,000	1,018,333	1,025,112	0.5
Great-West Lifeco Inc., Callable	4.650%	8/13/2020	280,000	280,000	280,426	0.1
Husky Energy Inc., Callable	5.000%	12/3/2020	1,000,000	1,029,434	1,019,425	0.5
Industrial Alliance Insurance & Financial Services Inc., Callable	Variable Rate	6/30/2019	1,000,000	1,028,773	1,044,959	0.6
Loblaw Companies Ltd., Callable	5.220%	6/18/2020	530,000	529,634	548,118	0.3
Manulife Bank of Canada	4.680%	12/9/2016	1,000,000	1,019,219	1,032,422	0.6
Metro Inc.	4.980%	10/15/2015	308,000	324,844	328,637	0.2
Quebecor Media Inc., Callable	7.375%	1/15/2021	750,000	750,000	750,000	0.4
Rogers Communications Inc., Callable	4.700%	9/29/2020	1,000,000	999,450	981,486	0.5
Royal Bank of Canada, Callable	Variable Rate	6/15/2020	1,000,000	1,006,008	1,033,685	0.6
Shaw Communications Inc., Callable	5.650%	1/10/2019	1,000,000	1,036,070	1,033,075	0.6
Sun Life Financial Inc., Callable	4.950%	1/6/2036	1,100,000	1,140,715	1,136,673	0.6
Suncor Energy Inc., Series ‘4’, Callable	5.800%	5/22/2018	1,030,000	1,106,275	1,144,792	0.6
Telus Corp., Series ‘CG’, Callable	5.050%	4/12/2019	1,000,000	1,017,186	1,018,859	0.5
Thomson Reuters Corp., Callable	4.350%	9/30/2020	1,161,000	1,156,530	1,163,451	0.6
Tim Hortons Inc., Series ‘1’, Callable, Restricted	4.200%	1/6/2017	184,000	183,967	188,853	0.1
Total Canadian Bonds				17,868,177	17,967,534	9.7

	As at December 31, 2011				As at December 31, 2010			
	Number of Units/ Shares	**Cost**	**Fair Value**	**% of Net Assets**	Number of Units/ Shares	Cost	Fair Value	% of Net Assets
Canadian Equities								
Oil and Gas Corporations								
ARC Resources Ltd. (formerly ARC Energy Trust)	**93,712**	**$ 1,889,349**	**$ 2,341,863**	**1.5**	118,712	$ 2,395,366	$ 3,015,285	1.7
Bonavista Energy Corp. (formerly Bonavista Energy Trust)	**123,005**	**2,555,595**	**3,204,280**	**2.0**	137,005	2,846,464	3,945,744	2.1
Canadian Natural Resources Ltd.	**50,000**	**2,074,767**	**1,902,000**	**1.2**	-	-	-	-
		6,519,711	**7,448,143**	**4.7**		5,241,830	6,961,029	3.8
Ongoing Business Trusts								
Copernican British Banks Income Fund	**366,400**	**320,427**	**340,752**	**0.2**	366,400	320,427	575,248	0.3
Power Financial Corp.	**60,900**	**1,862,763**	**1,553,559**	**1.0**	60,900	1,862,763	1,867,194	1.0
Rogers Sugar Income Fund	-	-	-	-	475,700	2,045,510	2,535,481	1.4
		2,183,190	**1,894,311**	**1.2**		4,228,700	4,977,923	2.7
Real Estate Investment Trusts								
Boardwalk REIT	-	-	-	-	37,822	1,345,637	1,559,779	0.8
Canadian REIT	-	-	-	-	46,644	1,232,873	1,446,897	0.8
		-	**-**	**-**		2,578,510	3,006,676	1.6
Pipeline/Energy Investments								
Cenovus Energy Inc.	**127,000**	**3,471,484**	**4,296,410**	**2.7**	127,000	3,471,484	4,207,510	2.3
Enbridge Inc.	**106,400**	**2,456,680**	**4,052,776**	**2.6**	63,700	2,941,552	3,581,851	1.9
EnCana Corp.	**117,000**	**3,749,429**	**2,210,130**	**1.4**	106,500	3,417,525	3,092,760	1.7
Fort Chicago Energy Partners LP	**-**	**-**	**-**	**-**	178,300	1,754,662	2,118,204	1.2
Inter Pipeline Fund	**119,400**	**1,270,415**	**2,214,870**	**1.4**	164,400	1,749,215	2,451,204	1.3
Keyera Corp. (formerly Keyera Facilities Income Fund)	**45,000**	**993,618**	**2,239,200**	**1.4**	75,200	1,660,446	2,643,280	1.4
Nexen Inc.	**120,100**	**2,497,830**	**1,945,620**	**1.2**	95,100	2,118,585	2,167,329	1.2
Pembina Pipeline Corp. (formerly Pembina Pipeline Income Fund)	**80,000**	**1,361,845**	**2,372,000**	**1.5**	126,000	2,144,905	2,721,600	1.5
Suncor Energy Inc.	**69,000**	**2,349,372**	**2,027,220**	**1.3**	85,000	2,894,153	3,245,300	1.8
Superior Plus Corp.	**137,600**	**1,791,965**	**787,072**	**0.5**	254,600	3,315,656	2,820,968	1.5
Talisman Energy Inc.	**120,000**	**2,055,260**	**1,557,600**	**1.0**	100,000	1,822,044	2,211,000	1.2
Transcanada Corp.	**86,629**	**3,085,398**	**3,854,990**	**2.4**	94,549	3,363,605	3,585,298	1.9
Transcontinental Inc., CL A	**110,000**	**1,365,452**	**1,386,000**	**0.9**	-	-	-	-
Veresen Inc.	**131,000**	**1,289,180**	**2,002,990**	**1.3**	-	-	-	-
		27,737,928	**30,946,878**	**19.6**		30,653,832	34,846,304	18.9

	As at December 31, 2011				As at December 31, 2010			
	Number of Units/ Shares	**Cost**	**Fair Value**	**% of Net Assets**	Number of Units/ Shares	Cost	Fair Value	% of Net Assets
Materials								
Cameco Corp.	**50,000**	**$ 1,245,789**	**$ 918,500**	**0.6**	43,500	$ 1,173,702	$ 1,750,875	0.9
Labrador Iron Ore Royalty Corp. (formerly Labrador Iron Ore Royalty Trust)	**52,000**	**1,049,880**	**1,942,720**	**1.2**	34,000	1,372,920	2,286,500	1.2
Potash Corp.	**57,000**	**1,976,398**	**2,399,130**	**1.5**	21,000	2,184,440	3,240,510	1.8
Genivar Inc. (formerly Genivar Income Fund)	**79,500**	**2,178,475**	**2,091,645**	**1.3**	79,500	2,178,475	2,401,695	1.3
		6,450,542	**7,351,995**	**4.6**		6,909,537	9,679,580	5.2
Telecommunications								
BCE Inc.	**58,330**	**2,229,807**	**2,475,525**	**1.6**	-	-	-	-
Cogeco Cable Inc., Sub VTG	**59,000**	**2,097,633**	**3,022,570**	**1.9**	65,000	2,310,952	2,665,650	1.4
Corus Entertainment Inc.	**108,500**	**2,043,205**	**2,222,080**	**1.4**	108,500	2,043,205	2,403,275	1.3
Research in Motion Ltd.	**-**	**-**	**-**	**-**	43,500	2,943,151	2,522,130	1.4
Rogers Communications Inc., CL B	**80,000**	**2,755,139**	**3,139,200**	**2.0**	68,000	2,318,195	2,346,680	1.3
Shaw Communications Inc.	**116,700**	**2,463,997**	**2,360,841**	**1.5**	144,700	3,055,187	3,082,110	1.7
Telus Corp.	**4,210**	**221,116**	**229,698**	**0.1**	-	-	-	-
Thomson Reuters Corp.	**99,000**	**3,398,580**	**2,691,810**	**1.7**	99,000	3,398,580	3,677,850	2.0
		15,209,477	**16,141,724**	**10.2**		16,069,270	16,697,695	9.1
Financial Services								
Bank of Montreal	**-**	**-**	**-**	**-**	44,000	2,388,212	2,526,920	1.4
Bank of Nova Scotia	**109.300**	**5,271,645**	**5,548,068**	**3.5**	120,300	5,802,185	6,860,709	3.7
Great-West Lifeco Inc.	**113,800**	**3,009,088**	**2,313,554**	**1.5**	113,800	3,009,088	2,999,768	1.6
Manulife Financial Corp.	**230,690**	**4,397,902**	**2,498,373**	**1.6**	221,707	4,281,134	3,791,190	2.0
Royal Bank of Canada	**131,000**	**7,206,613**	**6,801,520**	**4.3**	161,000	8,598,905	8,404,200	4.6
Toronto-Dominion Bank	**89,300**	**5,722,352**	**6,809,125**	**4.3**	92,300	5,914,592	6,839,430	3.7
		25,607,600	**23,970,640**	**15.2**		29,994,116	31,422,217	17.0

	As at December 31, 2011				As at December 31, 2010			
	Number of Units/ Shares	**Cost**	**Fair Value**	**% of Net Assets**	Number of Units/ Shares	Cost	Fair Value	% of Net Assets
Consumer Goods & Services								
Canadian National Railway Co.	**33,400**	**$ 1,869,345**	**$ 2,674,338**	**1.7**	33,400	$ 1,869,345	$ 2,212,750	1.2
George Weston Ltd.	**10,000**	**682,311**	**678,700**	**0.4**	8,700	593,690	730,365	0.4
Jean Coutu Group (PJC) Inc.	**-**	**-**	**-**	**-**	64,000	636,546	616,320	0.3
Lavalin Group Inc.	**85,000**	**4,153,279**	**4,330,750**	**2.7**	85,000	4,153,279	5,053,250	2.7
Loblaw Companies Ltd.	**50,776**	**1,711,639**	**1,948,783**	**1.2**	50,225	1,690,519	2,023,565	1.1
Shoppers Drug Mart Corp.	**63,200**	**2,480,421**	**2,594,992**	**1.6**	63,200	2,480,421	2,496,400	1.4
Tim Hortons Inc.	**23,900**	**764,501**	**1,178,987**	**0.7**	23,900	764,501	982,290	0.5
		11,661,496	**13,406,550**	**8.3**		12,188,301	14,114,940	7.6
Total Canadian Equities		**95,369,944**	**101,160,241**	**63.8**		107,864,096	121,706,364	65.9
International Bonds and Equities								
French Equities								
AXA, ADR	**135,000**	**2,806,881**	**1,767,784**	**1.1**	135,000	2,806,881	2,233,477	1.2
United Kingdom Equities								
BP PLC, ADR	**57,300**	**3,308,470**	**2,492,529**	**1.6**	49,300	2,955,512	2,163,753	1.2
HSBC Holdings PLC, ADR	**44,200**	**2,590,252**	**1,711,153**	**1.1**	44,200	2,590,252	2,241,643	1.2
National Grid PLC, ADR	**65,400**	**3,386,343**	**3,234,156**	**2.0**	70,400	3,645,238	3,028,292	1.6
Vodafone Group PLC, ADR	**101,700**	**2,388,152**	**2,901,640**	**1.8**	111,700	2,622,975	2,933,484	1.6
		11,673,217	**10,339,478**	**6.5**		11,813,977	10,367,172	5.6
U.S. Equities								
Automatic Data Processing Inc.	**49,000**	**2,189,611**	**2,693,292**	**1.7**	49,000	2,189,611	2,250,886	1.2
Colgate-Palmolive Co.	**28,000**	**2,267,403**	**2,632,991**	**1.7**	31,000	2,510,339	2,475,649	1.3
Emerson Electric Co.	**44,000**	**1,986,760**	**2,087,372**	**1.3**	44,000	1,986,760	2,499,507	1.4
Johnson & Johnson Inc.	**40,600**	**2,700,880**	**2,709,899**	**1.7**	40,600	2,700,880	2,494,761	1.3
Pepsico Inc.	**36,100**	**2,307,712**	**2,438,580**	**1.5**	36,100	2,307,712	2,343,078	1.3
Pfizer Inc.	**129,900**	**2,348,841**	**2,862,337**	**1.8**	144,900	2,620,069	2,521,088	1.3
Philip Morris International Inc.	**39,000**	**1,989,332**	**3,115,784**	**2.0**	47,000	2,397,401	2,733,442	1.5
Procter & Gamble Co.	**37,200**	**2,356,679**	**2,525,007**	**1.6**	37,200	2,356,679	2,377,880	1.4
		18,147,218	**21,065,262**	**13.3**		19,069,451	19,696,291	10.7

	As at December 31, 2011				As at December 31, 2010			
	Par Value	**Cost**	**Fair Value**	**% of Net Assets**	Par Value	Cost	Fair Value	% of Net Assets
U.S. Bonds								
Anheuser-Busch, 3.650%, January 15, 2016	**$ -**	**$ -**	**$ -**	**-**	$ 425,000	$ 424,832	$ 426,386	0.2
Great-West Lifeco Inc., 5.691%, June 21, 2067	**815,000**	**835,254**	**844,964**	**0.5**	815,000	835,254	850,800	0.5
Molson Coors International Inc., 3.950%, October 06, 2017	**1,000,000**	**996,850**	**1,029,548**	**0.7**	1,000,000	996,850	974,860	0.5
		1,832,104	**1,874,512**	**1.2**		2,256,936	2,252,046	1.2
Total International Bonds and Equities		**34,459,420**	**35,047,036**	**22.1**		35,947,245	34,548,986	18.7
Total Investments		**146,322,424**	**153,340,134**	**96.7**		161,679,518	174,222,884	94.3
Other Assets, Net of Liabilities			**5,275,830**	**3.3**			10,446,969	5.7
Total Net Assets			**$158,615,364**	**100.0**			$ 184,669,853	100.0

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. THE FUND

Establishment of the Fund

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 Toronto Stock Exchange (the "TSX") under the symbol CTF.WT.

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.

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.

Predecessor Funds

CHDF 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 TSX 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 ("Crown Hill"). Effective June 24, 2005, the name of CHDF changed from Profit Booking Blue Chip Trust to Crown Hill Dividend Fund.

MACCs 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 TSX 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 became the manager of MACCs.

Fairway was an investment fund established under the laws of the Province of Ontario on February 26, 2004. The units were listed on the TSX 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 became the manager of Fairway.

Premium 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 these 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, MMI&G Merging Funds were merged into a new fund, Premium, with unitholders of the MMI&G Merging Funds receiving units of Premium on a relative net asset value basis. The merger was recorded using the purchase method of accounting for business combinations with Premium issuing 61,000,000 units in exchange for the net assets of each of the MMI&G Merging Funds on July 19, 2006.

Hytes was a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of February 27, 2001. Hytes 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 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.

Stable 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 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.

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 net realized capital gains are distributed to unitholders.

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 reporting period. 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 consists 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 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.

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.

(c) 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.

(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 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 4(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 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:

As at December 31, 2011		Net Assets		Net Assets per Unit
Transactional Net Assets	$	158,826,312	$	5.30
Difference as a result of Section 3855		(210,948)		0.00
Net Assets	$	158,615,364	$	5.30

As at December 31, 2010		Net Assets		Net Assets per Unit
Transactional Net Assets	$	185,024,728	$	5.75
Difference as a result of Section 3855		(354,875)		(0.01)
Net Assets	$	184,669,853	$	5.74

(h) Securities lending

The Funds 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 Statements of Investments and are included in the total value on the Statements of Net Assets in Investments at fair value.

As at December 31, 2011, the Fund had an aggregate value of securities on loan of $12,895,587 (2010 - $12,363,006) and corresponding aggregate value of collateral for loan of $13,589,837 (2010 - $12,993,207).

(i) Future accounting changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS"). On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") made the decision to extend the deferral of the mandatory adoption of IFRS for investment companies applying Accounting Guideline AcG-18, Investment Companies, for an additional year to January 1, 2014. This extends the previous two-year deferral of IFRS to three years as compared to other publicly accountable entities. Accordingly, the Fund's financial statements will not be affected by IFRS until January 1, 2014.

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

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. On November 19, 2010, $213,904 was added to the outstanding balance on the Note. 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 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 Crown Hill.

For the year ended December 31, 2011, the principal of the Note was reduced by $4,077,239 and interest payments of $218,176 were received. As at December 31, 2011, the undiscounted loan balance and the present value of the expected future annual repayments on the Note were equal and totaled $2,275,175 (2010 - $6,352,414).

6. INVESTMENT PORTFOLIO

The following tables summarize movements in investments during the years ended December 31, 2011 and December 31, 2010:

Investments at cost

As at December 31	**2011**	2010
Investments at cost – beginning of year	**$ 161,679,518**	$ 204,890,577
Investments made during the year	**11,187,502**	112,881,323
Dispositions during the year, at cost	**(26,544,596)**	(156,092,382)
Investments at cost – end of year	**$ 146,322,424**	$ 161,679,518

Change in unrealized appreciation (depreciation) of investments

As at December 31	**2011**	2010
Investments at fair value – end of year	**$ 153,340,134**	$ 174,222,884
Investments at cost – end of year	**146,322,424**	161,679,518
Unrealized appreciation of investments – end of year	**7,017,710**	12,543,366
Unrealized appreciation of investments – beginning of year	**12,543,366**	6,732,162
Change in unrealized appreciation (depreciation) of investments	**$ (5,525,656)**	$ 5,811,204

Net realized gain (loss) on sale of investments

As at December 31	**2011**	2010
Proceeds of investments sold	**$ 30,338,515**	$ 168,115,464
Cost of investments sold	**(26,544,596)**	(156,092,382)
Net realized gain on investments	**$ 3,793,919**	$ 12,023,082

For the year ended December 31, 2011, the Fund's proceeds of investments sold totaled $30,338,515, of which $3,595,726 relates to the reduction in the fair value of the Note (2010 - $168,115,464; $3,329,510). The Fund's cost of investments sold totaled $26,544,596, of which $4,077,239 relates to the reduction in the undiscounted balance of the Note (2010 - $156,092,382; $3,816,190).

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 (see Note 3(g)) less any retraction costs.

The following unit transactions took place during the years ended December 31, 2011 and 2010:

For the years ended	**December 31, 2011**		December 31, 2010	
Issued and outstanding	**Number**	**Amount**	Number	Amount
Balance of units outstanding – beginning of year	**32,163,257**	**$ 177,006,988**	42,128,467	$ 233,844,749
Units cancelled or redeemed during the year	**(3,631,238)**	**(20,893,739)**	(9,967,767)	(56,851,952)
Units issued due to warrant exercise (CTF.WT.A)	**1,373,020**	**5,354,778**	-	-
Units Issued due to warrant exercise (CTF.WT)	**1,273**	**6,569**	2,557	14,191
Units issued due to dividend reinvestment plan	**5,896**	**23,494**	-	-
Balance of units outstanding – end of year	**29,912,208**	**$ 161,498,090**	32,163,257	$ 177,006,988

Warrants Issued and Outstanding

For the years ended	**2011**	2010
Balance of warrants outstanding – beginning of year	**32,466,665**	42,128,467
CTF.WT		
Warrants exercised during the year	**(1,273)**	(2,557)
Warrants cancelled during the year	**-**	(9,659,245)
Warrants expired during the year	**(32,465,392)**	-
CTF.WT.A		
Warrants issued during the year	**28,997,019**	-
Warrants exercised during the year	**(1,373,020)**	-
Balance of warrants outstanding - end of year	**27,623,999**	32,466,665

8. UNITHOLDERS' EQUITY

Unitholders' equity is comprised of unitholders' capital and retained earnings (deficit). The changes in unitholders' capital and retained earnings (deficit) during the years ended December 31, 2011 and December 31, 2010 are summarized as follows:

For the years ended	2011	2010
Unitholders' capital — beginning of year	**$ 177,006,988**	$ 233,844,749
Redemption of units	**(20,893,739)**	(56,851,952)
Subscription of units	**5,384,841**	14,191
Unitholders' capital — end of year	**$ 161,498,090**	$ 177,006,988

For the years ended	2011	2010
Retained earnings (deficit) — beginning of year	**$ 7,662,865**	$ 3,115,800
Results from operations for the year	**305,605**	23,971,476
Distributions to unitholders	**(10,851,196)**	(19,424,411)
Retained earnings (deficit) — end of year	**$ (2,882,786)**	$ 7,662,865

For the years ended	2011	2010
Unitholders' capital — end of year	**$ 161,498,090**	$ 177,006,988
Retained earnings (deficit) — end of year	**(2,882,726)**	7,662,865
Unitholders' equity — end of year	**$ 158,615,364**	$ 184,669,853

9. RELATED PARTY TRANSACTIONS

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.

The Manager is entitled to 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, 2011, management fees totaled $1,883,928 (2010 - $2,458,427), of which $128,308 was payable at December 31, 2011 (2010 - $121,927).

Legal expenses for the year ended December 31, 2011 totaled $962,110 (2010 - $466,644). This includes $288,203 (2010 - $79,520) in legal fees incurred on behalf of the Manager and a director of the Manager in accordance with an indemnification provision contained in the Declaration of Trust. The Fund also maintains insurance for the benefit of the Manager and the directors of the Manager against these types of expenses. The Fund is seeking reimbursement from the insurer for the legal fees incurred.

Administrative expenses for the year ended December 31, 2011 totaled $482,148 (2010 - $519,272). As part of these expenses, the Fund is paying a general overhead cost to First Paladin Inc. (a company under common control with the Manager). First Paladin Inc. received $30,000 per month plus applicable taxes in 2011 (2010 - $30,000 per month) to cover related administrative salaries, employee benefits, general overhead, and office supplies.

10. INVESTMENT MANAGEMENT FEES

Jarislowsky Fraser Ltd. is the investment manager of the Fund and is entitled to an investment management fee of 0.33% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2011, investment management fees totaled $577,431 (2010 – $868,156), of which $41,603 was payable at December 31, 2011 (2010 - $66,870).

11. 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 market risk, foreign currency risk, interest rate 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.

The following tables present as at December 31, 2011 and 2010, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value:

Financial assets — trading investments	Level 1	Level 2	Level 3	December 31, 2011 Total Fair Value
Equities	$ 134,332,765	$ -	$ -	$ 134,332,765
Bonds	-	19,007,369	-	19,007,369
Total	$ 134,332,765	$ 19,007,369	$ -	$ 153,340,134

Financial assets — trading investments	Level 1	Level 2	Level 3	December 31, 2010 Total Fair Value
Equities	$ 154,003,304	$ -	$ -	$ 154,003,304
Bonds	-	20,219,580	-	20,219,580
Total	$ 154,003,304	$ 20,219,580	$ -	$ 174,222,884

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, 2011, 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 $15,334,000 (approximately 9.7% of net assets) (2010 - $17,500,000; approximately 9.4% 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 13.0% (2010 - 8.5%) of the investment portfolio in U.S. currency. At December 31, 2011, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, the value of the investment portfolio would have increased (decreased) by approximately $1,033,000 (approximately 0.7% of the investment portfolio) (2010 - $787,000; approximately 0.4% of the investment portfolio). 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 84.8% of the investment portfolio in equity securities (2010 - 83.4%). Cash and short-term investments earn minimal interest. The loan receivable bears interest at prime plus 2%.

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.

The Fund invests approximately 84.8% of the investment portfolio in equity securities (2010 - 83.4%). Cash and short-term investments are held by the custodian. Loan receivable is collateralized by the assets of Crown Hill, including management fees, redemption payments and other assets of Crown Hill. As at December 31, 2011, the Fund has a $21,282,000 exposure to credit risk (2010 - $26,000,000).

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 84.8% of the Fund's assets in investments that are traded in an active market and can be readily disposed (2010 - 83.4%). Approximately 1.3% of the net assets of the Fund are invested in a loan receivable which is an illiquid investment (2010 - 3.2%).

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at December 31, 2011, the Fund's liquidity risk is considered minimal.

12. REGULATORY ISSUES

On March 4, 2011, preliminary prospectuses for offerings of warrants for both Citadel Income Fund and Energy Income Fund (the "Funds") were filed by the Manager. Staff of the Ontario Securities Commission ("Staff") recommended against receipting the prospectuses due to the widely publicized acquisition (the "Acquisition") by Crown Hill Fund of the administration contracts of the Citadel Group of Funds in June 2009 and the subsequent merger of some of those funds with the Crown Hill Fund, forming the Citadel Income Fund. At the time, Staff expressed their concerns with the Acquisition and the disclosure made in the June 3, 2009 information circular. After the Manager made changes to the proposed reorganization to address Staff's concerns, a new information circular was issued, was approved by unitholders and the reorganization was partially completed to create the Citadel Income Fund.

Despite the Manager's response, Staff continued to raise the same concerns with the Acquisition nearly two years later, and used those same arguments to recommend that the Director of Investment Funds deny the receipting of the prospectus in relation to the warrant offering.

On April 14, 2011, the Manager and the Funds availed themselves of the Opportunity to be Heard (the "OTBH") before the Director of Investment Funds. The OTBH meeting was adjourned and reconvened on May 11, 2011 with another (acting) Director. In the meantime, on May 6, 2011, Staff served the Manager and its President with an enforcement notice relating to the Acquisition. On May 11, 2011, the second (acting) Director upheld Staff's recommendation.

On May 31, 2011, the Manager and the Funds sought a hearing and review (the "Hearing and Review") of the Director's decision (pursuant to subsection 8(2) of the Securities Act) before the Ontario Securities Commission (the "Commission"). The application was heard on July 12, 13, and 14, 2011. Three business days prior to the Hearing and Review, July 7, 2011, Staff issued a Notice of Hearing and

Statement of Allegations against the Manager and its President. It is alleged in the Statement of Allegations that the Citadel Acquisition was undertaken primarily in the interests of the Manager rather than the Fund, contrary to s.116 of the Securities Act. This was the same submission made by Staff at the OTBH and then at the Hearing and Review. In addition, Staff allege that the acquisition of the management contracts for the Fairway Diversified Income and Growth Trust and subsequent merger in January 2009 was also primarily in the interests of the Manager. Finally, Staff allege that certain amendments to the Declaration of Trust of MACCs Sustainable Yield Trust (the predecessor trust to Crown Hill Fund) to increase the management fee, grant broader powers to the Manager and to adopt less restrictive investment requirements, were also undertaken primarily to benefit the Manager.

Immediately following the issuance of the Notice of Hearing, Staff sought to stay the Hearing and Review on the basis that the Commission should await the outcome of the enforcement proceeding commenced on July 7, 2011, as the proceedings largely involved the same issues. The Commission dismissed Staff's motion.

On August 4, 2011, the Commission released its order, granting the Manager's application on the Hearing and Review and overturning the acting Director's decision to deny the receipting of the preliminary prospectuses. The Commission ruled and found that there were insufficient grounds to justify the acting Director's decision and the Staff's recommendations. The Commission ruled that, contrary to Staff's submission and the Director's decision, it was not apparent that there was sufficient evidence to justify a refusal to issue a receipt for the prospectuses on the grounds that the business of the Funds may not be conducted with integrity.

The Funds filed final prospectuses in accordance with the Commission's order.

On August 8, 2011, the Manager and its President attended before the Commission and requested the earliest available hearing dates to address the allegations made by Staff in the enforcement proceeding. Staff resisted setting hearing dates and the presiding Commissioner ordered that the parties return for a pre-hearing conference on September 21, 2011. This second pre-hearing conference was again reconvened and on October 13, 2011, hearing dates were set with an enforcement proceeding scheduled to start on May 9, 2012.

The allegations contained in the Statement of Allegations are unproven. In the event that some or all of the allegations are proven, there is a risk to the Fund that the Manager or its President may lose its registration to act on behalf of the Fund, temporarily or until the Termination Date. While the Manager believes this to be unlikely, in the event it were to occur, the Manager would make arrangements such that the Fund would not be materially adversely affected.

13. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS

The brokerage commission fees paid for the year ended December 31, 2011 were $30,118 (2010 - $174,199). The commissions were incurred solely for order execution services. The Fund does not pay any soft dollar commissions.

14. 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' 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.

15. SUBSEQUENT EVENTS

Warrant Offering

On September 27, 2011, the Fund announced that it had filed a final short form prospectus relating to its warrant offering. Each unitholder of record on October 7, 2011 received one new warrant for each unit held. 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 i) March 8, 2012, or ii) such date which is 20 business days from the date the embedded call feature in the warrants is exercised by the Fund in accordance with the terms of the warrant offering.

The exercise of warrants by warrant holders provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, reduce the management expense ratio, and increase the trading liquidity of the Fund's units.

As at December 31, 2011, 1,373,020 warrants were exercised for total proceeds of $5,354,778. On March 9, 2012, upon completion of the warrant offering program, 24,591,569 warrants were exercised for total proceeds of $95,907,119.

Normal Course Issuer Bid Program

Effective February 1, 2012, the Fund renewed its normal course issuer bid program to permit the Fund to purchase up to 3,026,052 of the outstanding units on the TSX from time to time. The Fund may purchase units in the market for cancellation if the Manager determines that such purchases provide liquidity to unitholders. Under the normal course issuer bid program, the Fund may purchase up to 3,026,052 units, representing approximately 10% of the public float of 30,260,515 units. Additionally, the Fund may not purchase more than 607,645 units in any 30-day period, representing 2% of the issued and outstanding units. If these purchases are made, they will be made in accordance with applicable regulations over a twelve-month period ending January 31, 2013. Units purchased will be cancelled. Effective March 15, 2012, the normal course issuer bid was amended to increase the number of transferable, redeemable units that may be purchased under the bid from 3,026,052 units to 5,168,986 units, being 10% of the public float of the issued and outstanding units as of March 12, 2012. The number of units purchased under the normal course issuer bid program from February 1, 2012 to March 30, 2012 was 1,641,200 units with a weighted average price paid of $4.04 per unit.

Partial Redemption Feature

On February 14, 2012, the Fund announced that up to 5,000,000 Units of the Fund may be redeemed on March 29, 2012 for an amount per unit equal to the net asset value retraction price ("NAV Retraction Price") as of March 23, 2012. The NAV Retraction Price is an amount equal to 100% of the net asset value per unit less any retraction costs. The retraction costs will not exceed 0.9% of the net asset value per unit. Beneficial holders of units had to submit their request to redeem units by no later than March 20, 2012. Requests for redemptions were oversubscribed and all 5,000,000 units were redeemed. The units were redeemed on a pro rata basis at a redemption price of $4.71 per unit.

16. COMPARATIVE NUMBERS

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

CORPORATE INFORMATION

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INDEPENDENT REVIEW COMMITTEE

Mark Maxwell
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Mark Arthur

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

OFFICERS OF THE MANAGER/TRUSTEE

Wayne Pushka – Chief Executive Officer and Chief Compliance Officer
Robert Parent – Chief Financial Officer
Kevin Ho – Vice-President, Finance

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