



## CITADEL INCOME FUND

SEMI-ANNUAL REPORT

JUNE 30, 2014

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# MANAGEMENT REPORT OF FUND PERFORMANCE

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## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance contains financial highlights but does not contain either the interim financial report or annual financial statements of the Citadel Income Fund (the “Fund”). The interim financial statements follow this report. You can get a copy of the interim financial report or annual financial statements at your request, and at no cost, by calling 647-477-4886, by writing to us at Investor Relations, Artemis Investment Management Limited, 5 Hazelton Avenue, Suite 200, Toronto, ON, M5R 2E1, Canada or by visiting our website at [www.artemisfunds.ca](http://www.artemisfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Securityholders 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.

## THE FUND

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

## INVESTMENT OBJECTIVES AND STRATEGIES

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

## RISKS

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

There were no changes in the period ended June 30, 2014 that materially affected the risks associated with an investment in Units of the Fund. For a list of risks, see the Fund’s annual information form filed March 18, 2014 on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

The NAV of the Fund went from \$113.55 million to \$119.09 million from January 1, 2014 to June 30, 2014. Total revenue per Unit for the period ended June 30, 2014 was \$0.086, compared to \$0.081 for the same period in 2013. Operations for the period resulted in an increase in NAV per Unit of \$0.268, up from a decrease of \$0.026 per Unit for the same period in 2013.

Total administrative expenses for the period ended June 30, 2014 were \$0.011 per Unit compared to \$0.317 for the same period in 2013. The decrease in total administrative expenses in the period ended June 30, 2014 compared to the same period in 2013 is primarily attributable to certain non-recurring expenses in the comparable period in 2013 that were incurred by the Fund as a result of Crown Hill Capital Corporation (“Crown Hill”) resigning as trustee and manager of the Fund. Further information on this can be found in the discussion of “Related Party Transactions.” Management fees increased for the

## MANAGEMENT REPORT OF FUND PERFORMANCE

period to \$0.026 per Unit (2013 - \$0.021) due to an increase in the net asset value of the Fund over the period. Investment management fees decreased for the period to \$0.008 per Unit (2013 - \$0.012). Excluding the expenses discussed above, all other expenses of the Fund for the period ended June 30, 2014 were \$0.009 per Unit (2013 - \$0.016).

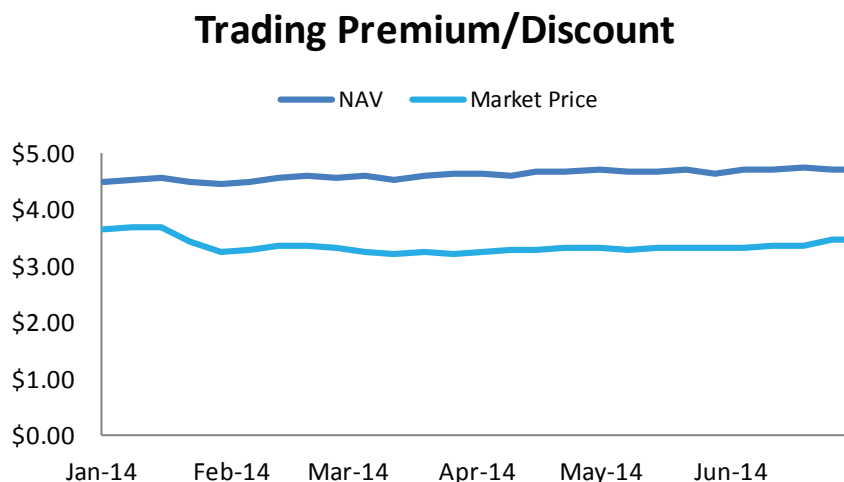
The Fund's cash balance increased over the period ended June 30, 2014 through the sale of existing bond holdings. The Portfolio Advisor reduced the Fund's bond exposure to realize gains on positions and insulate the Portfolio from downside risk if interest rates begin to come off of their all-time lows in the future. Aside from a reduction in bond holdings, the asset mix of the Fund's Portfolio remained relatively stable compared to the same period in 2013.

The NAV per Unit increased 3.97% for the period ended June 30, 2014. For the period ended June 30, 2014, the Fund paid total cash distributions of \$0.05 per Unit and total Fund Unit distributions of \$0.03 per Unit.

There were no unusual trends in redemptions for the period ended June 30, 2014, with no redemptions occurring over the period.

### TRADING PREMIUM/DISCOUNT

For the period ended June 30, 2014, the Fund traded at an average discount to its net asset value per unit of 27.3%, compared to an average discount of 10.5% for the same period in 2013.



### RECENT DEVELOPMENTS

#### Monthly Distributions for 2014

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

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

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

## MANAGEMENT REPORT OF FUND PERFORMANCE

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to its distribution reinvestment plan (“DRIP”).

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

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

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

### Redemptions & Retractions

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period (the “Maximum Redemption Amount”). The public float as determined on November 29, 2013 was 25,037,922 Units and 10% of the public float was 2,503,792 Units. From January 1, 2014 to June 30, 2014, the Fund did not repurchase any Units for cancellation.

### Normal Course Issuer Bid Program (“NCIB Program”)

Under the NCIB Program, the Fund was entitled to purchase up to 2,248,541 Units of the Fund, subject to certain restrictions. Further information on this matter can be found in the press release dated February 4, 2013 on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com). The NCIB Program expired on February 5, 2014. For the period ended June 30, 2014, the Fund did not repurchase any Units for cancellation under its NCIB program.

## 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 period ended June 30, 2014, management fees totaled \$626,707 (2013 - \$480,053), of which \$29,312 was payable as at June 30, 2014 (2013 - \$138,779). The Fund is responsible for all expenses incurred. Prior to Artemis becoming the Manager, all expenses of the Fund were initially paid by the manager, who was then reimbursed by the Fund. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The portfolio advisor receives a fee of 0.33% per annum of the average net asset value of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the period ended June 30, 2014, investment management fees totaled \$209,817 (2013 - \$266,364), of which \$33,301 was payable at June 30, 2014 (2013 - \$ 94,185).

Administrative Expenses for the period ended June 30, 2014 totaled \$287,696 (2013 - \$7,174,029). As part of these expenses, the Fund pays a general overhead cost to Artemis Investment Management Limited. Artemis Investment Management Limited receives \$35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies. In addition to recurring administrative expenses of the Fund, certain non-recurring expenses in the 2013 period were a result of Crown Hill announcing its resignation as trustee and Manager of the Fund as of January 15, 2013. A termination payment of \$5.35 million, plus applicable taxes, was paid to Crown Hill. In addition, expenses totaling \$0.84 million, plus applicable taxes, were paid to Crown Hill.

For redemptions or repurchases made subsequent to the amended and restated declaration of trust as of March 7, 2014 (the “Declaration of Trust”), the manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the period ended June 30, 2014, redemption fees totaled nil (2013 - \$1,143) of which nil was payable as at June 30, 2014 (2013 - nil).

# MANAGEMENT REPORT OF FUND PERFORMANCE

## FINANCIAL HIGHLIGHTS

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

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

For the Periods Ended	June 30, 2014	December31, 2013	December31, 2012	December31, 2011	December31, 2010
<b>Net Assets per Unit, Beginning of Year</b>	<b>\$4.53</b>	\$4.54	\$5.30	\$5.74	\$5.62
Increase From Operations:					
Total Revenue	0.09	0.15	0.16	0.21	0.27
Total Expenses	(0.05)	(0.42)	(0.11)	(0.14)	(0.12)
Realized Gains	0.10	0.20	0.11	0.12	0.29
Unrealized Gains (Losses)	0.12	0.58	0.01	(0.18)	0.14
<b>Total Increase From Operations <sup>(2)</sup></b>	<b>\$0.26</b>	\$0.51	\$0.17	\$0.01	\$0.58
Distributions:					
From Net Investment Income	0.08	-	0.04	0.04	0.17
From Capital Gains	-	-	-	0.09	0.20
Return of Capital	-	0.36	0.32	0.23	0.11
<b>Total Distributions per Unit <sup>(3)</sup></b>	<b>0.08</b>	0.36	0.36	0.36	0.48
<b>Net Assets per Unit, End of Period</b>	<b>\$4.71</b>	\$4.53	\$4.54	\$5.30	\$5.74

(1) This information is derived from the Fund's audited annual financial statements. The net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated for fund pricing purposes because of the provisions of CPA Handbook Section 3855 prior to the adoption of IFRS in 2014. An explanation of the differences can be found in the notes to the financial statements.

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

(3) The distribution of \$0.03 during January 2014 was paid in Units of the Fund. All other distributions for the period ended June 30, 2014 were paid in cash.

## RATIOS AND SUPPLEMENTAL DATA

For the Periods Ended	June 30, 2014	December31, 2013	December31, 2012	December31, 2011	December31, 2010
Total Net Asset Value (\$ 000's) <sup>(1)</sup>	<b>\$119,086</b>	\$113,553	\$106,625	\$158,615	\$184,670
Number of Units Outstanding (000's) <sup>(1)</sup>	<b>25,267</b>	25,042	23,485	29,912	32,163
Management Expense Ratio <sup>(2)</sup>	<b>2.31%</b>	9.27%	3.58%	4.21%	2.08%
Trading Expense Ratio <sup>(3)</sup>	<b>0.05%</b>	0.12%	0.06%	0.02%	0.08%
Portfolio Turnover Rate <sup>(4)</sup>	<b>12.10%</b>	32.45%	38.33%	6.44%	48.91%
Net asset value per Unit	<b>\$4.71</b>	\$4.53	\$4.54	\$5.30	\$5.74
Closing Market Price	<b>\$3.49</b>	\$3.74	\$4.02	\$3.88	\$5.21

(1) This information is provided as at the date shown.

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

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

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in a year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

# MANAGEMENT REPORT OF FUND PERFORMANCE

## MANAGEMENT FEES

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

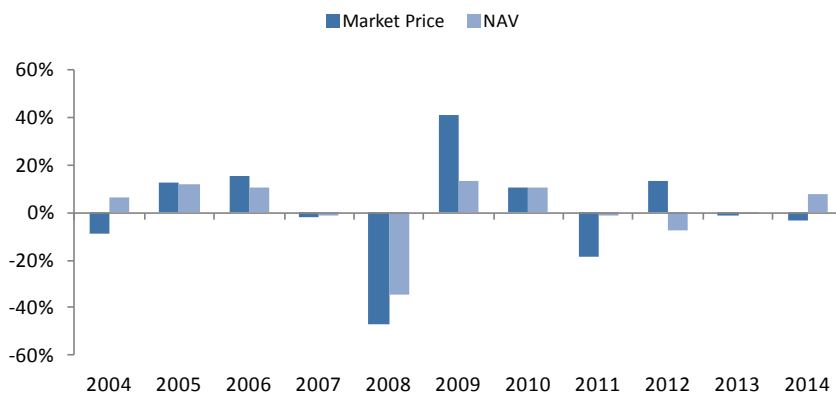
## PAST PERFORMANCE

The Fund's performance numbers represent the annual compound total returns over the period from inception in June 2004 to June 30, 2014 (except for returns of less than one year which are compounded total returns). Total returns are based upon both the Fund's change in market price or net assets per unit plus the reinvestment of all distributions in additional Units of the Fund on the reinvestment dates for the year.

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

The total return of the Fund for the period ended June 30, 2014 was 7.50% measured in terms of its NAV. The total return of the market price per Unit of the Fund for the period ended June 30, 2014 was negative 2.62%.

### Year by Year Returns



The Fund commenced operations as of May 2004. For 2013 and prior years, this represents the annual return, unadjusted for the exercise of warrants, for the twelve-month period ended December 31.

# MANAGEMENT REPORT OF FUND PERFORMANCE

## SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2014

Total Net Assets: \$ 119,086,108

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

Portfolio by Sector	% of Total Net Assets
Canadian Equities	
Pipeline/Energy Investments	13.8
Financial Services	22.8
Integrated Financial Services	1.0
Consumer Goods & Services	4.3
Telecommunications	6.8
Oil & Gas Corporations	6.3
Materials	11.4
Retail	0.5
Total Canadian Equities	66.9
Canadian Bonds	4.6
International Bonds (U.S.)	0.4
International Equities (U.S., U.K., France)	21.7
Cash and Cash Equivalents	6.2
Other Assets, Net of Liabilities	0.2
Total Net Assets	100.0

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

As at June 30, 2014

Cash and Cash Equivalents	6.2	Johnson & Johnson Inc.	2.1
Toronto-Dominion Bank	5.5	Inter Pipeline Inc.	2.1
Royal Bank of Canada	5.0	Teck Resources Ltd.	2.0
Bank of Nova Scotia	4.4	Major Drilling Group International Inc.	2.0
Canadian Imperial Bank of Commerce	3.2	BCE Inc.	1.9
Canadian Natural Resources Ltd.	2.8	Keyera Corp.	1.8
Rio Tinto PLC	2.5	Total SA, ADR	1.8
Canadian National Railway Co.	2.5	ARC Resources Ltd.	1.7
Potash Corp.	2.5	Transcanada Corp.	1.7
Thomson Reuters Corp.	2.4	HSBC Holdings PLC, ADR	1.7
Royal Dutch Shell PLC, ADR	2.3	Pfizer Inc.	1.7
Manulife Financial Corp.	2.2	Cenovus Energy Inc.	1.6
Canadian Imperial Bank of Commerce, 1.750%, 06/01/2016	2.1	<b>% of Total Net Assets</b>	<b>65.7</b>



## MANAGEMENT REPORT OF FUND PERFORMANCE

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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Financial Statements  
(Expressed in Canadian dollars)

# CITADEL INCOME FUND

For the six month period ended June 30, 2014 (unaudited)



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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These interim financial statements of Citadel Income Fund (the "Fund") have been prepared by Artemis Investment Management Limited ("Artemis"). Artemis is responsible for the information and representations contained in these financial statements and the other sections of the semi-annual report.

Artemis maintains appropriate procedures to ensure that relevant and reliable financial information is produced. The significant accounting policies applicable to the Fund are described in Note 4 to the financial statements.

Artemis, the Manager and Trustee of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice. The auditors of the Fund have not reviewed these financial statements.

August 29, 2014

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

Conor Bill  
Chief Executive Officer  
Artemis Investment Management Limited

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

Trevor Maunder  
Chief Financial Officer  
Artemis Investment Management Limited

## STATEMENTS OF FINANCIAL POSITION

June 30, 2014, with comparative figures for December 31, 2013 and January 1, 2013 (unaudited)	June 30, 2014	December 31, 2013	January 1, 2013
<b>Assets</b>			
<b>Current Assets</b>			
Financial assets at fair value through profit or loss (Note 4)	\$ 111,449,846	\$ 111,971,585	\$ 104,455,655
Cash	7,395,176	1,947,865	2,813,182
Accrued interest	35,946	36,374	108,635
Dividends receivable	423,991	382,456	385,971
Prepaid expenses	-	-	163,758
Other receivables	280,239	261,681	-
	<u>119,585,198</u>	<u>114,599,961</u>	<u>107,927,201</u>
<b>Liabilities</b>			
Distributions Payable	252,666	751,249	704,549
Management fees payable (Note 8)	62,613	88,637	90,846
Accounts payable and accrued liabilities (Note 8)	183,811	206,984	320,015
Total liabilities (excluding net assets attributable to holders of redeemable units)	<u>499,090</u>	<u>1,046,870</u>	<u>1,115,410</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>\$ 119,086,108</u>	<u>\$ 113,553,091</u>	<u>\$ 106,811,791</u>
<b>Number of redeemable units outstanding (Note 7)</b>	<u>25,266,571</u>	<u>25,041,625</u>	<u>23,484,986</u>
<b>Net assets attributable to holders of redeemable units per Unit</b>	<u>\$ 4.71</u>	<u>\$ 4.53</u>	<u>\$ 4.55</u>

See accompanying notes to the financial statements.

Approved on behalf of Citadel Income Fund by the Board of Directors of Artemis Investment Management Limited:

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

Conor Bill  
Chief Executive Officer

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

Trevor Maunder  
Chief Financial Officer

## STATEMENTS OF COMPREHENSIVE INCOME

Six month periods ended June 30 (unaudited)	2014	2013
<b>Income</b>		
Dividends	\$ 2,121,775	\$ 1,564,487
Interest income for distribution purposes	98,039	235,839
Security lending income	-	4,394
Foreign exchange gain	(59,879)	26,489
Other changes in fair value from financial assets and financial liabilities at fair value through profit or loss		
Net realized gain on sale of investments	2,586,919	2,478,150
Change in unrealized appreciation on investments	3,454,936	3,416,941
<b>Total net income</b>	<b>8,201,790</b>	<b>7,726,300</b>
<b>Expenses</b>		
Management fees (Note 8)	626,707	480,053
Investment management fees (Note 8)	209,817	266,364
Administrative (Note 8)	287,696	7,174,029
Legal fees	18,000	3,860
Regulatory and listing	40,000	59,285
Unitholder servicing	62,000	79,986
Custody, valuation and transfer fees	38,868	54,575
Audit and review fees	25,000	21,895
Independent review committee fees	15,000	44,979
Portfolio transaction costs (Note 11)	29,146	45,983
Board fees	-	41,416
Total operating expenses	1,352,234	8,272,425
<b>Operating profit before tax</b>	<b>\$ 6,849,556</b>	<b>\$ (546,125)</b>
Less: Withholding tax	103,148	36,913
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>	<b>\$ 6,746,408</b>	<b>\$ (583,038)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit<sup>(1)</sup></b>	<b>\$ 0.27</b>	<b>\$ (0.03)</b>

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

See accompanying notes to the financial statements.

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

Six month periods ended June 30 (unaudited)	2014	2013
<b>Net assets attributable to holders of redeemable units - beginning of period</b>	\$ 113,553,091	\$ 106,811,791
Increase (decrease) in net assets attributable to holders of redeemable units from operations	6,746,408	(583,038)
<b>Redeemable unit transactions (Note 7)</b>		
Reinvested distributions	801,013	68,709
Units repurchased and canceled under the normal course issuer bid	-	(8,476)
Redemption of redeemable units	-	(4,364,367)
	<u>801,013</u>	<u>(4,304,134)</u>
<b>Distributions to holders of redeemable units</b>		
Return to holders of redeemable units	(2,014,404)	(4,048,257)
	<u>(2,014,404)</u>	<u>(4,048,257)</u>
<b>Net increase (decrease) in net assets attributable to holders of redeemable units for the period</b>	5,533,017	(8,935,429)
	<u>(8,398,477)</u>	<u>(12,505,206)</u>
<b>Net assets attributable to holders of redeemable units - end of period</b>	\$ 119,086,108	\$ 97,876,362
<b>Distributions per unit</b>	\$ 0.08	\$ 0.18

See accompanying notes to the financial statements.

## STATEMENTS OF CASH FLOWS

Six month periods ended June 30 (unaudited)	2014	2013
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units from operations	\$ 6,746,408	\$ (583,038)
Adjustments for:		
Net realized (gain) loss on sale of investments	(2,586,919)	(2,478,150)
Portfolio transaction costs	29,146	45,983
Foreign exchange (gain) loss on cash	59,879	(26,489)
Change in unrealized (appreciation) depreciation on value of investments	(3,454,936)	(3,416,941)
Purchases of investments	(6,779,891)	(10,801,603)
Proceeds from sale of investments	13,314,339	29,921,802
Decrease (increase) in dividends and interest receivable	(41,107)	19,527
Decrease (increase) other receivables and prepayments	(18,558)	(205,563)
Increase (decrease) in management fees payable	(26,024)	142,118
Increase (decrease) in other payables and accrued expenses	(23,173)	(147,487)
<b>Net cash from operating activities</b>	<u>7,219,164</u>	<u>12,470,159</u>
<b>Cash flows used in financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvestment distributions	(1,711,974)	(4,009,173)
Units repurchased and canceled under the normal course issuer bid	-	(8,476)
Amounts paid for redeemable units redeemed	-	(4,364,367)
<b>Net cash used in financing activities</b>	<u>(1,711,974)</u>	<u>(8,382,016)</u>
Foreign exchange gain (loss) on cash	(59,879)	26,489
Net increase (decrease) in cash	5,447,311	4,114,632
Cash at beginning of period	1,947,865	2,813,182
<b>Cash at end of period</b>	<u>7,395,176</u>	<u>6,927,814</u>
Dividends received, net of withholding taxes	1,979,462	1,478,294
Interest received, net of withholding taxes	96,097	304,646

See accompanying notes to the financial statements.

## SCHEDULE OF INVESTMENTS

June 30, 2014

Number of shares/par value	Investments owned	Average cost	Fair value	% of net assets
<b>CANADIAN BONDS</b>				
250,000	Bell Canada, 4.400%, 03/16/2018	\$ 249,790	\$ 269,582	0.2
141,000	Bell Canada, 4.950%, 05/19/2021	140,484	158,005	0.1
2,500,000	Canadian Imperial Bank of Commerce, 1.750%, 06/01/2016	2,471,500	2,505,655	2.1
150,000	Enbridge Inc., 4.770%, 09/02/2019	154,131	166,346	0.1
457,000	Intact Financial Corp., 4.700%, 08/18/2021	475,103	506,592	0.4
425,000	Pembina Pipeline Corp., 4.890%, 03/29/2021	441,040	474,277	0.4
200,000	Quebecor Media Inc., 7.375%, 01/15/2021	200,000	218,833	0.2
445,000	Rogers Communications Inc., 4.700%, 09/29/2020	444,755	489,364	0.4
130,000	Royal Bank of Canada, 2.980%, 05/07/2019	132,295	134,221	0.1
350,000	TELUS Corporation, 5.050%, 12/04/2019	356,015	392,024	0.3
350,000	TransCanada Pipelines Ltd., 3.650%, 11/15/2021	359,719	370,495	0.3
		5,424,832	5,685,394	4.6
<b>CANADIAN EQUITIES</b>				
<b>Oil and Gas Corporations</b>				
62,712	ARC Resources Ltd.	1,310,881	2,037,513	1.7
77,856	Bonavista Energy Corp.	1,557,001	1,274,503	1.1
66,895	Canadian Natural Resources Ltd.	2,538,939	3,279,862	2.8
100,000	Lightstream Resources Ltd.	871,050	816,000	0.7
		6,277,871	7,407,878	6.3
<b>Integrated Financial Services</b>				
34,075	Power Financial Corp.	1,012,455	1,131,631	1.0
<b>Pipeline/Energy Investments</b>				
54,945	Cenovus Energy Inc.	1,567,485	1,900,548	1.6
38,085	Enbridge Inc.	954,992	1,928,244	1.6
53,270	Encana Corp.	1,352,618	1,346,666	1.1
74,960	Inter Pipeline Ltd.	1,021,802	2,482,675	2.1
27,400	Keyera Corp.	753,880	2,153,914	1.8
41,665	Pembina Pipeline Corp.	815,910	1,912,840	1.6
40,435	Suncor Energy Inc.	1,369,106	1,839,793	1.5
38,609	Transcanada Corp.	1,424,525	1,966,356	1.7
203,600	Uranium Participation Corp.	1,034,288	987,460	0.8
		10,294,606	16,518,496	13.8



## SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

Number of shares/par value	Investments owned	Average cost	Fair value	% of net assets
<b>Materials</b>				
80,000	Barrick Gold Corp.	1,442,351	1,563,200	1.3
33,130	Cameco Corp.	796,983	693,410	0.6
445,750	Capstone Mining Corp.	1,224,208	1,145,578	1.0
53,000	Goldcorp Inc.	1,434,804	1,578,340	1.3
302,800	Major Drilling International Inc.	2,268,018	2,352,756	2.0
73,835	Potash Corp.	2,905,412	2,996,224	2.5
180,100	Sherritt International Corp.	645,893	778,032	0.7
100,000	Teck Resources Inc.	2,587,080	2,436,000	2.0
		13,304,749	13,543,540	11.4
<b>Telecommunications</b>				
45,550	BCE Inc.	1,798,495	2,204,620	1.9
39,470	Rogers Communications Inc.	1,398,179	1,694,842	1.4
33,920	TELUS Corp.	958,334	1,348,998	1.1
74,220	Thomson Reuters Corp.	2,415,158	2,883,447	2.4
		6,570,166	8,131,907	6.8
<b>Financial Services</b>				
73,590	Bank of Nova Scotia	3,732,162	5,235,193	4.4
40,000	Canadian Imperial Bank of Commerce	3,069,388	3,884,000	3.2
39,850	Dream Office Real Estate Investment Trust	1,174,045	1,167,207	1.0
59,920	Great-West Lifeco Inc.	1,546,295	1,808,385	1.5
122,528	Manulife Financial Corp.	2,217,639	2,598,819	2.2
77,850	Royal Bank of Canada	4,352,593	5,938,398	5.0
119,000	Toronto-Dominion Bank	4,143,244	6,536,670	5.5
		20,235,365	27,168,672	22.8
<b>Consumer Goods and Services</b>				
43,430	Canadian National Railway Co.	1,482,878	3,014,042	2.5
11,915	George Weston Ltd.	782,884	937,830	0.8
21,000	Tim Hortons Inc.	823,564	1,225,770	1.0
		3,089,326	5,177,642	4.3
<b>Retail</b>				
95,000	Reitmans Canada Ltd.	835,820	571,900	0.5
<b>TOTAL CANADIAN EQUITIES</b>		61,620,358	79,651,666	66.9
<b>TOTAL CANADIAN BONDS AND EQUITIES</b>		67,045,190	85,337,060	71.5

## SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2014

Number of shares/par value	Investments owned	Average cost	Fair value	% of net assets
<b>INTERNATIONAL BONDS</b>				
400,000	Molson Coors International LP, 3.950%, 10/06/2017	398,740	421,490	0.4
<b>INTERNATIONAL EQUITIES</b>				
36,880	HSBC Holdings PLC, ADR	1,926,350	1,995,572	1.7
52,435	Rio Tinto PLC	2,607,800	3,031,616	2.5
31,000	Royal Dutch Shell PLC, ADR	2,277,709	2,719,843	2.3
27,130	Total SA, ADR	1,390,346	2,086,412	1.8
26,705	Vodafone Group PLC, ADR	761,814	949,778	0.8
		8,964,019	10,783,221	9.1
<b>U.S. EQUITIES</b>				
60,000	Bank of America Corp.	846,931	982,286	0.8
11,200	Caterpillar Inc.	982,491	1,296,405	1.1
24,710	Colgate-Palmolive Co.	1,000,492	1,794,497	1.5
31,200	Financial Select Sector SPDR Fund	662,459	755,715	0.6
30,000	General Motors Co.	1,165,465	1,159,954	1.0
22,200	Johnson & Johnson Inc.	1,467,300	2,476,892	2.1
50,000	Peabody Energy Corp.	922,370	870,765	0.7
63,075	Pfizer Inc.	1,174,777	1,994,042	1.7
15,265	Philip Morris International Inc.	778,645	1,370,847	1.2
18,380	Procter & Gamble Co.	1,171,156	1,538,600	1.3
12,876	Verizon Communications Inc.	416,181	671,072	0.6
		10,588,267	14,908,075	12.6
	<b>TOTAL INTERNATIONAL AND U.S. EQUITIES</b>	19,552,286	25,691,296	21.7
	<b>TOTAL INTERNATIONAL BONDS AND INTERNATIONAL AND U.S. EQUITIES</b>	19,951,026	26,112,786	22.1
	Transaction Costs	(154,805)	-	-
	<b>Total Investments</b>	<u>\$ 86,841,411</u>	111,449,846	93.6
	<b>Other Assets, Net of Liabilities</b>		7,636,262	6.4
	<b>Net Assets</b>		119,086,108	100.0

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

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## 1. THE FUND

### (a) Establishment of the Fund

Citadel Income Fund (the “Fund”) is the name of the combined fund resulting from the merger on December 2, 2009 of Crown Hill Fund (“CHF”) with Citadel Premium Income Fund (“Premium”), Citadel HYTES Fund (“Hytes”), Citadel S-1 Income Trust Fund (“Citadel S-1”), Citadel Stable S-1 Income Fund (“Stable”) and Equal Weight Plus Fund (“Equal Weight”) (collectively the “Previous Citadel Funds”). The Fund acquired the investment portfolios and other assets of the Previous Citadel Funds on December 2, 2009, but did not assume any liabilities of the Previous Citadel Funds. Since the merger was an acquisition, it was done on a taxable basis. 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. The address of the fund’s registered office is 5 Hazelton Avenue, Suite 200, Toronto, ON, M5R 2E1, Canada.

### (b) Change in Manager

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

### (c) Change in Portfolio Advisor

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

The unaudited financial statements were authorized for issue by Artemis Investment Management Limited on August 29, 2014.

## 2. INVESTMENT OBJECTIVES OF THE FUND

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

## 3. INCOME TAXES

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

The Fund may be liable to pay income or profits tax on income or gains derived from investments in the U.S. and other foreign countries. Such income and gains are recorded on a gross basis and the related withholding taxes are shown separately in the Statements of Comprehensive Income.

As of December 31, 2013 the Fund had non-capital losses of approximately \$2,962,020 that expire in 2033.

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

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## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CPA Canada Handbook (Canadian GAAP). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 16 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

### (a) Cash and Short-Term Investments

Cash include balances with banks at fair value. Short-term investments consist of debt investments with maturities of less than one year on acquisition.

### (b) Financial Instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular purchases and sales of financial assets are recognized at their entry date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL). The Fund's obligation for net assets attributable to holders of redeemable units is present at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, on the accrual basis based on the bond coupon rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders.

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

### (c) Valuation of Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers in and out of the fair value hierarchy levels as at the end of the reporting period for transfers between Levels 1 and 2 and as at the date of the transfer for transfers in and out of Level 3. See Note 6 for a description of each fair value hierarchy level.

### (d) Investment Transactions and Income Recognition

- i. Investment transactions are accounted for on the entry date.
- ii. Interest income for distribution purposes is recognized on an accrual basis based on the bond coupon rate.
- 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.

### (e) Foreign Currency Translation

Both the functional and presentation currency of the fund are Canadian dollars.

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

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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 denominated in foreign currencies are converted into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions. Realized exchange gains/(losses) on investments, and unrealized exchange gains/(losses) on investments, if any, are presented in the Statements of Comprehensive Income.

## **(f) Distributions**

Distributions to unitholders are recorded by the Fund when declared.

## **(g) Securities Lending**

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

The market value of the loaned securities is determined on the close of any valuation date, and any additional required collateral is made by the Fund on the next business day. The securities on loan continue to be included on the Schedule of Investments and are included in the total value on the Statements of Financial Position in Financial Assets at Fair Value through Profit or Loss.

As at June 30, 2014 and December 31, 2013, the Fund had no securities on loan.

## **(h) Increase/(Decrease) in Net Assets Attributable to Holders of Redeemable Units Per Unit**

Increase/(decrease) in net assets attributable to holders of redeemable units per unit represents the net increase/(decrease) in net assets attributable to holders of redeemable units from operations divided by the average units outstanding for during the period.

## **(i) Future Accounting Changes**

The International Accounting Standards Board ("IASB") has issued the following new standards and amendments to existing standards that are not yet effective. The Fund has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized; however, in its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018. The fund does not intend to early adopt IFRS 9 in its financial statements for the period beginning on January 1, 2014.

## **5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

### **(a) Fair Value Measurement of Derivatives and Securities Not Quoted in an Active Market**

Fair values of instruments not quoted in active markets are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 6 for further information about the fair value measurement of the Fund's financial instruments.

## (b) Classification and Measurement of Investments and Application of the Fair Value Option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for the financial assets under IAS39, Financial instruments – Recognition and Measurement (IAS39). The most significant judgment made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

## 6. FAIR VALUE DISCLOSURES

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable for the financial asset or liability and include situations where there is little, if any, market activity for the financial asset or liability. The inputs into the determination of fair value require significant management judgment or estimation.

The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2014, December 31, 2013 and January 1, 2013.

June 30, 2014	Level 1	Level 2	Level 3	Total
Financial Assets at FVTPL				
Equities	\$ 105,342,962	-	-	\$ 105,342,962
Bonds	-	\$ 6,106,884	-	6,106,884
Total	\$ 105,342,962	-	-	\$ 111,449,846

There were no transfers between categories or level 3 transactions during the period ended June 30, 2014.

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

December 31, 2013	Level 1	Level 2	Level 3	Total
<b>Financial Assets at FVTPL</b>				
Equities	\$ 105,979,325	-	-	\$ 105,979,325
Bonds	-	\$ 5,992,260	-	5,992,260
<b>Total</b>	<b>\$ 105,979,325</b>	<b>-</b>	<b>-</b>	<b>\$ 111,971,585</b>

There were no transfers between categories or level 3 transactions during the year ended December 31, 2013.

January 1, 2013	Level 1	Level 2	Level 3	Total
<b>Financial Assets at FVTPL</b>				
Equities	\$ 92,241,872	-	-	\$ 92,241,872
Bonds	-	\$ 12,213,783	-	12,213,783
<b>Total</b>	<b>\$ 92,241,872</b>	<b>\$ 12,213,783</b>	<b>-</b>	<b>\$ 104,455,655</b>

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, payable for investments purchased, redemptions payable, distributions payable, accrued liabilities and the Fund's obligation for net assets attributable to holders of redeemable units approximates their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

## (a) Equities

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., intrinsic value, transactions for similar securities of the same issuer) and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

## (b) Bonds

Bonds include primarily government and corporate bonds, which are valued at the mean of bid/ask price provided by recognized investment dealers. These prices are generally observable and therefore the Funds' bonds are classified as Level 2.

## 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 Net Asset Value per Unit less any retraction costs.

The Fund's redeemable units are classified as financial liabilities on the Statement of Financial Position, since the Fund has an obligation to distribute its income to minimize taxes such that it has no discretion to avoid cash distributions and with an ongoing redemption option, the Fund violates IAS 32.16A(d) to be classified as equity.

## NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

The following Unit transactions took place during the period ended June 30, 2014 and December 31, 2013:

### Units Issued and Outstanding

For the periods ended	June 30, 2014	June 30, 2013
Units - beginning of period	25,041,625	23,484,986
Issued under DRIP	224,946	17,303
Warrants exercised	-	-
Units repurchased or canceled under NCIB	-	(2,000)
Units redeemed	-	(1,002,807)
Units - end of period	25,266,571	22,497,482

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

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

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

## 8. RELATED PARTY TRANSACTIONS

The Fund is responsible for all expenses incurred. Prior to Artemis becoming the Manager, all expenses of the Fund were initially paid by the manager, who was then reimbursed by the Fund. Artemis generally has all expenses incurred by the Fund paid directly by 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. For the period ended June 30, 2014, management fees totaled \$626,707 (2013 - \$480,053), of which \$29,312 was payable as at June 30, 2014 (2013 - \$138,779).

The portfolio advisor receives a fee of 0.33% per annum of the average net asset value of the Fund, plus applicable taxes, calculated and payable monthly. For the period ended June 30, 2014, investment management fees totaled \$209,817 (2013 - \$266,364), of which \$33,301 was payable at June 30, 2014 (2013 - \$ 94,185).

Administrative Expenses for the period ended June 30, 2014 totaled \$287,696 (2013 - \$7,174,029). As part of these expenses, the Fund pays a general overhead cost to Artemis Investment Management Limited. Artemis Investment Management Limited receives \$35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies. In addition to recurring administrative expenses of the Fund, certain non-recurring expenses in the 2013 period were a result of Crown Hill announcing its resignation as trustee and Manager of the Fund as of January 15, 2013 (Note 1(b)).



# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

For redemptions or repurchases the Manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the period ended June 30, 2014, redemption fees totaled nil (2013 - \$1,143) of which nil was payable as at June 30, 2014 (2013 - nil).

## 9. FINANCIAL 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:

### (a) 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 June 30, 2014, had the prices on the respective stock exchanges for these securities raised (lowered) by 5%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased (decreased) by approximately \$5,572,000 (approximately 4.68% of net asset value) (December 31, 2013 - \$5,599,500, approximately 4.93% of net asset value; January 1, 2013 - \$5,223,000, approximately 4.89% of net asset value). In practice, the actual results may differ and the difference could be material.

### (b) 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 Schedule 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.

As at June 30, 2014, the Fund invests approximately 25.0% (December 31, 2013 - 25.6% and January 1, 2013 - 12.6%) of the investment portfolio in U.S. currency. At June 30, 2014, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased (decreased) by approximately \$1,486,000 (approximately 1.3% of net asset value) (December 31, 2013 - \$1,452,500, approximately 1.3% of net asset value; January 1, 2013 - \$671,000, approximately 0.6% of the investment portfolio). In practice, the actual results may differ and the difference could be material.

### (c) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments.

As at June 30, 2014, the Fund had approximately 94.5% of the investment portfolio in equity securities (December 31, 2013 — 94.7% and January 1, 2013 — 88.3%). Cash and short-term investments earn minimal interest. The Fund also invests in securities which subject the Fund to interest rate risk. As at June 30, 2014, if interest rates increased by 1% with all other variables held constant, the fair value of the securities as shown on the Fund's Schedule of Investments would have decreased by approximately \$194,624 (December 31, 2013 - \$212,043 and January 1, 2013 - \$900,498). In practice, the actual results may differ and the difference could be material.

## NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

### (d) 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 fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by their carrying amount.

The Fund's cash is mainly held with Royal Bank of Canada, which is rated AA (2013: AA) based on DBRS ratings. The Manager monitors the financial position on a quarterly basis.

As at June 30, 2014, \$6,106,884 of the Fund's investments had credit risk exposure (December 31, 2013 - \$5,992,260 and January 1, 2013 - \$12,213,783).

### (e) 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 the Fund's assets in investments that can be readily disposed.

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at June 30, 2014, the Fund's liquidity risk is considered minimal.

### (f) Concentration Risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

Sector	June 30, 2014 Percentage of NAV (%)	December 31, 2013 Percentage of NAV (%)	January 1, 2013 Percentage of NAV (%)
<b>Bonds</b>			
Canadian Corporate Bonds	4.6	4.9	10.6
U.S. Corporate Bonds	-	-	0.9
International Corporate Bonds	0.4	0.4	0.1
<b>Canadian Equities</b>			
Oil and Gas Corporations	6.3	5.2	5.1
Pipeline/Energy Investments	13.8	14.0	18.5
Materials	11.4	11.3	3.4
Consumer Goods & Services	4.3	4.3	10.6
Retail	0.5	0.6	-
Financial Services	22.8	21.6	15.9
Integrated Financial Services	1.0	1.1	1.9
Telecommunication Services	6.8	9.8	10.6
U.S. Equities	12.6	17.3	13.6

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

International Equities	9.1	8.1	6.7
Other Assets Less Liabilities	6.4	1.4	2.1
Total	100.00	100.00	100.00

## 10. NORMAL COURSE ISSUER BID PROGRAM (“NCIB Program”)

Under the NCIB Program, the Fund was entitled to purchase up to 2,248,541 Units of the Fund, subject to certain restrictions. Further information on this matter can be found in the press release dated February 4, 2013 on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com). The NCIB Program expired on February 5, 2014. For the period ended June 30, 2014, the Fund did not repurchase any Units for cancellation under its NCIB program.

## 11. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTION COSTS

The brokerage commissions paid for the period ended June 30, 2014 were \$29,146 (2013 - \$45,983). The commissions were incurred solely for order execution services. Such costs are expensed and are included in transaction costs in the Statement of Comprehensive Income. The fund paid \$4,380 in soft dollar commission for the period ended June 30, 2014 (2013 — \$24,360).

## 12. CAPITAL MANAGEMENT

The Fund’s capital is its net assets attributable to holders of redeemable units. 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.

## 13. FINANCIAL INSTRUMENTS BY CATEGORY

The Fund’s financial instruments with the exception of derivatives instruments, as at June 30, 2014, December 31, 2013 and January 1, 2013, are designated as FVTPL. The fund’s derivative instruments are categorized as Held for trading (“HFT”).

For the periods ended June 30, 2014 and 2013, the Fund’s net gains (losses) on financial instruments with the exception of derivatives, were all from financial instruments designated as FVTPL. The Fund’s net gains (losses) on derivatives are from instruments categorized as HFT.

## 14. TRANSITION TO IFRS

The effect of the Fund’s transition to IFRS is summarized in this note as follows:

### (a) Transition Elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss (FVTPL) upon transition to IFRS. All financial assets designated at FVTPL upon transition (see Note 13) were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

### (b) Statement of Cash Flows

Under Canadian GAAP, the Fund was exempt from providing a Statement of Cash Flows. IAS 1 requires that a complete set of financial statements include a Statement of Cash Flows for the current and comparative periods, without exception.

# NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

**(c) Reconciliation of Net Assets and Comprehensive Income as Previously Reported under Canadian GAAP to IFRS as at transition date January 1 and December 31, 2013, and for the period ended June 30, 2013, respectively:**

Reconciliation of Net Assets	December 31, 2013	January 1, 2013
	(\$)	(\$)
Net assets as reported under Canadian GAAP	113,494,197	106,625,257
Revaluation of investments at fair value through profit or loss	58,894	186,534
Net assets attributable to holders of redeemable units	113,553,091	106,811,791

Reconciliation of Comprehensive Income	December 31, 2013	June 30, 2013
	(\$)	(\$)
Comprehensive income as reported under Canadian GAAP	11,797,666	(470,161)
Revaluation of investments at fair value through profit or loss	(127,640)	(112,877)
Increase (decrease) in Net Assets attributable to holders of redeemable units	11,670,026	(583,038)

## **(d) Classification of Redeemable Units Issued by the Fund**

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

## **(e) Revaluation of Investments at Fair Value Through Profit or Loss**

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments — Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions; to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, Fair Value Measurement (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, upon adoption of IFRS an adjustment was recognized to increase the carrying amount of the Fund's investments by \$58,894 as at December 31, 2013 and \$186,534 as at January 1, 2013. The impact of this adjustment was to decrease the Fund's Increase (decrease) in net assets attributable to holders of redeemable units by \$112,877 for the six month period ended June 30, 2013 and by \$127,640 for the year ended December 31, 2013.

## **(f) Reclassification Adjustments**

In addition to the measurement adjustments noted above, the Fund reclassified certain amounts upon transition in order to conform to its financial statement presentation under IFRS. Withholding taxes of \$36,913 for the period ended June 30, 2013 which were previously netted against dividend income under Canadian GAAP have been reclassified and presented separately as expense under IFRS.

## 15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in late 2013.

## 16. RECENT DEVELOPMENTS

### **Monthly Distributions for 2014**

On January 22, 2014, the Fund announced distributions for 2014 of \$0.03 per Unit per month. Each monthly distribution would be paid in Units of the

## NOTES TO FINANCIAL STATEMENTS

Period Ended June 30, 2014

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

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

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

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

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

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

### **Redemptions & Retractions**

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). The public float as determined on November 29, 2013 was 25,037,922 Units and 10% of the public float was 2,503,792 Units. From January 1, 2014 to June 30, 2014, the Fund did not repurchase any Units for cancellation.

## CORPORATE INFORMATION

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### INDEPENDENT REVIEW COMMITTEE

Peter Chodos

John Mills

Michael Newman

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Miles Nadal - Director

Conor Bill - Director

Trevor Maunder - Director

### OFFICERS OF THE MANAGER/TRUSTEE

Miles Nadal - Chairman

Conor Bill - Chief Executive Officer

Trevor Maunder - Chief Financial Officer

Sean Lawless - Chief Compliance Officer

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