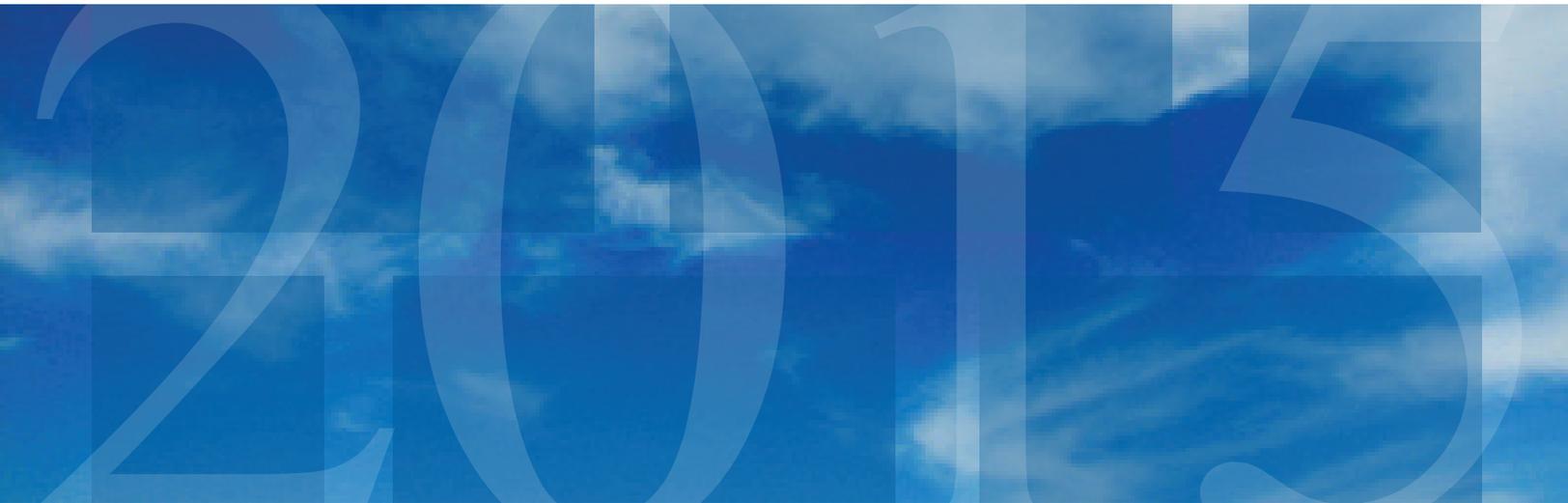




Artemis

Investment Management



## CITADEL INCOME FUND

SEMI-ANNUAL REPORT

JUNE 30, 2015

## TABLE OF CONTENTS

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|    |   |
|----|---|
| 1  | MANAGEMENT REPORT OF FUND PERFORMANCE   |
| 9  | FINANCIAL STATEMENTS  |
| 10 | MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING                             |
| 11 | STATEMENTS OF FINANCIAL POSITION  |
| 12 | STATEMENTS OF COMPREHENSIVE INCOME  |
| 13 | STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS |
| 14 | STATEMENTS OF CASH FLOWS  |
| 15 | SCHEDULE OF INVESTMENTS   |
| 18 | NOTES TO FINANCIAL STATEMENTS   |
| 27 | CORPORATE INFORMATION   |

# MANAGEMENT REPORT OF FUND PERFORMANCE

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## MANAGEMENT REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Citadel Income Fund (the “Fund”) contains financial highlights but does not contain either the interim financial statements or annual financial statements of the Fund. You may obtain a copy of either the interim or annual financial statements, at no cost, by calling 416-934-7455, or by sending a request to Investor Relations, Artemis Investment Management Limited, 1325 Lawrence Avenue E., Suite 200, Toronto, ON, M3A 1C6, Canada or by visiting our website at [www.artemisfunds.ca](http://www.artemisfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Holders of units (“Unitholders”) may also contact us using one of these methods to request a copy of the Fund’s interim financial report, 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 of the Fund (“Artemis” or the “Manager”). 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 STRATEGY

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 (“NAV”) 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 NAV 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, 2015 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 27, 2015 on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

The NAV of the Fund went from \$102.26 million to \$99.18 million from January 1, 2015 to June 30, 2015. Total revenue per Unit for the period ended June 30, 2015 was \$0.100, compared to \$0.086 for the same period in 2014. Operations for the period resulted in decrease in NAV per Unit of \$0.078 compared to an increase of \$0.268 for 2014.

Total administrative expenses for the period ended June 30, 2015 were \$0.0112 per Unit compared to \$0.0114 for the same period in 2014. On a per Unit basis, total administrative expenses remained approximately flat – in line with the general reduction in outstanding Units between both periods. Management fees decreased for the period to \$0.0246 per Unit (2014 – \$0.0249) due to a decrease in the NAV of the Fund over the period. Investment management fees decreased for the period to \$0.0081 per Unit (2014 – \$0.0083). Excluding the expenses discussed above, all other expenses of the Fund for the period ended June 30, 2015 were \$0.0105 per Unit (2014 – \$0.0090).

## MANAGEMENT REPORT OF FUND PERFORMANCE

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The Fund's cash balance increased over the period ended June 30, 2015 through the sale of existing bond holdings. Compared to the same period in 2014, the Portfolio Advisor continued to reduce 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 2014.

The NAV per Unit, after distributions to Unitholders, decreased 3.09% for the period ended June 30, 2015. During the period, the Fund paid total cash distributions of \$0.06 per Unit.

There were no unusual trends in redemptions for the period ended June 30, 2015, with no redemptions occurring over the period.

### TRADING PREMIUM/DISCOUNT

For the period ended June 30, 2015, the Fund traded at an average discount to its net asset value per unit of 23.2%, compared to an average discount of 27.3% for the same period in 2014.

### RECENT DEVELOPMENTS

#### Monthly distribution for 2015

On January 23, 2015, the Fund announced distributions for 2015 of \$0.01 per unit per month. Unitholders of record on the last day of each month of 2015 will be paid cash distributions of \$0.01 on the 15th day (or first business date thereafter) of the ensuing month.

#### 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 28, 2014 was 25,288,648 Units and 10% of the public float was 2,528,865 Units. From January 1, 2015 to June 30, 2015, the Fund did not repurchase any Units for cancellation.

### RELATED PARTY TRANSACTIONS

The Manager is entitled to receive a management fee of 1.00% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly. For the period ended June 31, 2015, management fees totaled \$560,609 (2014 – \$626,707), of which \$100,586 was payable as at June 30, 2015 (2014 – \$29,312). The Fund is responsible for all expenses incurred on its behalf. 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 NAV of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the period ended June 30, 2015, investment management fees totaled \$185,001 (2014 – \$209,817), of which \$33,193 was payable at June 30, 2015 (2014 – \$33,301).

Administrative Expenses for the period ended June 30, 2015 totaled \$256,114 (2014 – \$287,696). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis receives \$35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies.

The Manager is entitled to receive a fee of 5% of the NAV per Unit redeemed or repurchased plus applicable taxes. For the period ended June 30, 2015, redemption fees totaled nil (2014 – nil) of which nil was payable as at June 30, 2015 (2014 – 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                              | 30-Jun-15        | 31-Dec-14 | 31-Dec-13 | 31-Dec-12 | 31-Dec-11 |
|--|------------------|-----------|-----------|-----------|-----------|
| <b>Net Assets per Unit, Beginning of Year</b>      | <b>\$ 4.49</b>   | \$ 4.53   | \$ 4.54   | \$ 5.30   | \$ 5.74   |
| Increase From Operations:                          |                  |           |           |           |           |
| Total Revenue                                      | <b>0.10</b>      | 0.17      | 0.15      | 0.16      | 0.21      |
| Total Expenses                                     | <b>(0.06)</b>    | (0.12)    | (0.42)    | (0.10)    | (0.14)    |
| Realized Gains (Losses)                            | <b>(0.05)</b>    | 0.27      | 0.20      | 0.10      | 0.12      |
| Unrealized Gains (Losses)                          | <b>(0.08)</b>    | (0.21)    | 0.58      | 0.02      | (0.18)    |
| Total Increase from Operations <sup>(2)</sup>      | <b>\$ (0.08)</b> | \$ 0.12   | \$ 0.51   | \$ 0.21   | \$ 0.01   |
| <b>Distributions:</b>                              |                  |           |           |           |           |
| From Net Investment Income                         | —                | —         | —         | —         | —         |
| From Dividends                                     | —                | —         | —         | —         | —         |
| From Capital Gains                                 | —                | 0.03      | —         | —         | —         |
| Return of Capital                                  | <b>0.06</b>      | 0.11      | 0.36      | 0.36      | 0.36      |
| <b>Total Distributions per Unit <sup>(3)</sup></b> | <b>0.06</b>      | 0.14      | 0.36      | 0.36      | 0.36      |
| <b>Net Assets per Unit, End of Period</b>          | <b>\$ 4.35</b>   | \$ 4.49   | \$ 4.53   | \$ 4.54   | \$ 5.30   |

(1) For financial years beginning before January 1, 2013, the financial statements of the Fund were prepared in accordance with Canadian GAAP, whereas for financial periods beginning January 1, 2013, the financial statements of the Fund have been prepared in accordance with IFRS. This information is derived from the Fund's audited annual financial statements. The net assets per Unit presented in the financial statements differ from the net asset value per Unit calculated for fund pricing purposes because of the provisions of CPA Handbook Section 3855. An explanation of the differences can be found in the notes to the financial statements.

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

(3) The distribution of \$0.03 during January 2014 was paid in Units. All other distributions for the period ended December 31, 2014 were paid in cash.

## MANAGEMENT REPORT OF FUND PERFORMANCE

### RATIOS AND SUPPLEMENTAL DATA

| For the Periods Ended                                  | 30-Jun-15        | 31-Dec-14  | 31-Dec-13  | 31-Dec-12  | 31-Dec-11  |
|--|------------------|------------|------------|------------|------------|
| <b>Total Net Asset Value (\$ 000's) <sup>(1)</sup></b> | <b>\$ 99,185</b> | \$ 102,250 | \$ 113,553 | \$ 106,625 | \$ 158,615 |
| Number of Units Outstanding (000's) <sup>(1)</sup>     | <b>22,812</b>    | 22,792     | 25,042     | 23,485     | 29,912     |
| Management Expense Ratio <sup>(2)</sup>                | <b>2.31%</b>     | 2.25%      | 9.27%      | 3.58%      | 4.21%      |
| Trading Expense Ratio <sup>(3)</sup>                   | <b>0.11%</b>     | 0.05%      | 0.12%      | 0.06%      | 0.02%      |
| Portfolio Turnover Ratio <sup>(4)</sup>                | <b>14.73%</b>    | 10.49%     | 32.45%     | 38.33%     | 6.44%      |
| Net Asset Value Per Unit                               | <b>\$ 4.35</b>   | \$ 4.49    | \$ 4.53    | \$ 4.54    | \$ 5.30    |
| Closing Market Price                                   | <b>\$ 3.35</b>   | \$ 3.28    | \$ 3.74    | \$ 4.02    | \$ 3.88    |

(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

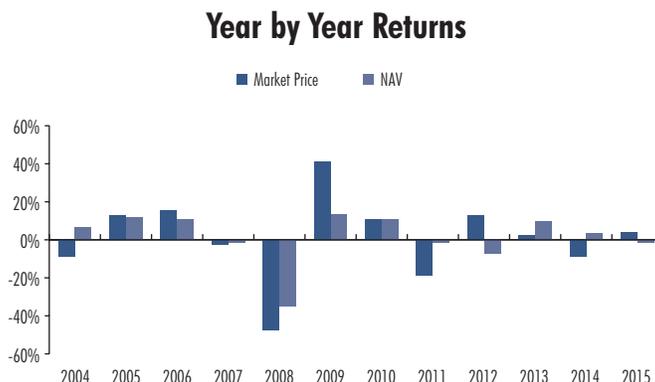
The manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. The portfolio advisor receives a fee of 0.33% per annum of the average net asset value of the Fund plus applicable taxes, calculated 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, 2015 (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, 2015 was negative 1.40% 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 3.92%.



The Fund commenced operations as of May 2004. For 2014 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

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### SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2015

Total Net Assets: \$ 99,184,547

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).

| <b>Portfolio by Sector</b>                  | <b>% of Total Net Assets</b> |
|---|------------------------------|
| Canadian Equities                           |                              |
| Pipeline/Energy Investments                 | 15.9%                        |
| Financial Services                          | 26.9%                        |
| Integrated Financial Services               | 1.2%                         |
| Consumer Goods & Services                   | 3.2%                         |
| Telecommunications                          | 7.5%                         |
| Oil & Gas Corporations                      | 3.6%                         |
| Materials                                   | 9.9%                         |
| Retail                                      | 0.6%                         |
| Total Canadian Equities                     | 68.8%                        |
| Canadian Bonds                              | 0.0%                         |
| International Bonds (U.S.)                  | 0.0%                         |
| International Equities (U.S., U.K., France) | 20.2%                        |
| Other Assets, Net of Liabilities            | 11.0%                        |
| Total Net Assets                            | 100.0%                       |

## MANAGEMENT REPORT OF FUND PERFORMANCE

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

As at June 30, 2015

|                                    |        |   |               |
|------------------------------------|--------|---|---------------|
| Other Assets, net of Liabilities   | 11.00% | HudBay Minerals Inc.                    | 2.20%         |
| Toronto-Dominion Bank              | 6.30%  | Great-West Lifeco Inc.                  | 2.20%         |
| Royal Bank of Canada               | 6.00%  | HSBC Holdings PLC, ADR                  | 2.10%         |
| Bank of Nova Scotia                | 4.80%  | Baytex Energy Corp.                     | 2.00%         |
| Canadian Imperial Bank of Commerce | 3.70%  | Keyera Corp.                            | 2.00%         |
| Crescent Point Energy Corp.        | 3.20%  | Major Drilling Group International Inc. | 1.90%         |
| Canadian National Railway Co.      | 3.20%  | Enbridge Inc.                           | 1.80%         |
| Manulife Financial Corp.           | 2.90%  | Rogers Communications Inc.              | 1.80%         |
| Rio Tinto PLC, Sponsored ADR       | 2.70%  | Thomson Reuters Corp.                   | 1.80%         |
| Royal Dutch Shell PLC, ADR         | 2.70%  | Total SA, ADR                           | 1.70%         |
| Pfizer Inc.                        | 2.60%  | Cenovus Energy Inc.                     | 1.50%         |
| BCE Inc.                           | 2.40%  | TELUS Corp.                             | 1.50%         |
| Canadian Natural Resources Ltd.    | 2.30%  |   |               |
|                                    |        | <b>% of Total Net Assets</b>            | <b>76.30%</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 of

# CITADEL INCOME FUND

For the six month period ended June 30, 2015 (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.

August 28, 2015

(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, 2015 and December 31, 2014 (unaudited)

|  | June 30,<br>2015     | December 31,<br>2014  |
|--|----------------------|-----------------------|
| <b>Assets</b>  |                      |                       |
| Financial assets at fair value through profit or loss (note 4)         | \$ 88,284,443        | \$ 95,680,710         |
| Cash   | 10,673,406           | 6,545,576             |
| Accrued interest   | —                    | 14,746                |
| Dividends receivable   | 345,554              | 281,286               |
| Other receivables  | 463,821              | 428,354               |
|  | <u>99,767,224</u>    | <u>102,950,672</u>    |
| <b>Liabilities</b>   |                      |                       |
| Distributions payable  | 228,115              | 227,919               |
| Management fees and investment fees payable (note 8)                   | 133,779              | 141,132               |
| Accounts payable and accrued liabilities (note 8)                      | 220,783              | 325,529               |
|  | <u>582,677</u>       | <u>694,580</u>        |
| <b>Net assets attributable to holders of redeemable units</b>          | <u>\$ 99,184,547</u> | <u>\$ 102,256,092</u> |
| <b>Number of redeemable units outstanding (note 7)</b>                 | <u>22,811,542</u>    | <u>22,791,956</u>     |
| <b>Net assets attributable to holders of redeemable units per unit</b> | <u>\$ 4.35</u>       | <u>\$ 4.49</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)

|  | 2015                  | 2014                |
|--|-----------------------|---------------------|
| <b>Income</b>  |                       |                     |
| Dividends  | \$ 1,757,844          | \$ 2,121,775        |
| Interest income for distribution purposes  | 29,331                | 98,039              |
| Foreign exchange gain (loss)   | 502,323               | (59,879)            |
| Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss               |                       |                     |
| Net realized gain (loss) on sale of investments  | (1,054,139)           | 2,586,919           |
| Change in unrealized appreciation (depreciation) on investments  | (1,723,215)           | 3,454,936           |
| <b>Total net income (loss)</b>   | <b>(487,856)</b>      | <b>8,201,790</b>    |
| <b>Expenses</b>  |                       |                     |
| Management fees (note 8)   | 560,609               | 626,707             |
| Investment management fees (note 8)  | 185,001               | 209,817             |
| Administrative (note 8)  | 256,114               | 287,696             |
| Legal fees   | 16,662                | 18,000              |
| Regulatory and listing   | 37,027                | 40,000              |
| Unitholder servicing   | 60,747                | 62,000              |
| Custody, valuation and transfer fees   | 22,570                | 38,868              |
| Audit and review fees  | 30,084                | 25,000              |
| Independent review committee fees  | 11,800                | 15,000              |
| Interest   | 427                   | —                   |
| Portfolio transaction costs (note 11)  | 59,002                | 29,146              |
| Total operating expenses   | 1,240,043             | 1,352,234           |
| <b>Operating profit (loss) before tax</b>  | <b>(1,727,899)</b>    | <b>6,849,556</b>    |
| <b>Withholding taxes</b>   | <b>(39,879)</b>       | <b>(103,148)</b>    |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>                         | <b>\$ (1,767,778)</b> | <b>\$ 6,746,408</b> |
| <b>Weighted average number of units outstanding</b>  | <b>22,800,964</b>     | <b>25,199,277</b>   |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit <sup>(1)</sup></b> | <b>\$ (0.08)</b>      | <b>\$ 0.27</b>      |

(1) 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)

|   | 2015           | 2014           |
|---|----------------|----------------|
| <b>Net assets attributable to holders of redeemable units, beginning of period</b>                      | \$ 102,256,092 | \$ 113,553,091 |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units from operations</b>    | (1,767,778)    | 6,746,408      |
| <b>Redeemable unit transactions (note 7)</b>  |                |                |
| Reinvested distributions  | 64,409         | 801,013        |
| <b>Distributions to holders of redeemable units</b>   |                |                |
| Return to holders of redeemable units   | (1,368,176)    | (2,014,404)    |
| <b>Net increase (decrease) in net assets attributable to holders of redeemable units for the period</b> | (3,071,545)    | 5,533,017      |
| <b>Net assets attributable to holders of redeemable units, end of period</b>                            | \$ 99,184,547  | \$ 119,086,108 |
| <b>Distributions per unit</b>   | \$ 0.06        | \$ 0.08        |

See accompanying notes to the financial statements.

## STATEMENTS OF CASH FLOWS

Six-month periods ended June 30 (unaudited)

|   | 2015                 | 2014                |
|---|----------------------|---------------------|
| <b>Cash flows from operating activities</b>   |                      |                     |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations | \$ (1,767,778)       | \$ 6,746,408        |
| Adjustments for:  |                      |                     |
| Net realized (gain) loss on sale of investments   | 1,054,139            | (2,586,919)         |
| Portfolio transaction costs   | 59,002               | 29,146              |
| Foreign exchange (gain) loss on cash  | (502,323)            | 59,879              |
| Change in unrealized (appreciation) depreciation in value of investments                      | 1,723,215            | (3,454,936)         |
| Purchases of investments  | (7,303,753)          | (6,779,891)         |
| Proceeds from sale of investments   | 11,863,664           | 13,314,339          |
| Decrease (increase) in dividends and interest receivable                                      | (49,522)             | (41,107)            |
| Decrease (increase) in other receivables and prepaid expenses                                 | (35,467)             | (18,558)            |
| Increase (decrease) in management fees payable  | (7,353)              | (26,024)            |
| Increase (decrease) in accounts payables and accrued liabilities                              | (104,746)            | (23,173)            |
|   | <u>4,929,078</u>     | <u>7,219,164</u>    |
| <b>Cash flows used in financing activities</b>  |                      |                     |
| Distributions paid to holders of redeemable units, net of reinvested distributions            | (1,303,571)          | (1,711,974)         |
| <b>Foreign exchange gain (loss) on cash</b>   | <u>502,323</u>       | <u>(59,879)</u>     |
| Net increase in cash  | 4,127,830            | 5,447,311           |
| Cash, beginning of period   | 6,545,576            | 1,947,865           |
| <b>Cash, end of period</b>  | <u>\$ 10,673,406</u> | <u>\$ 7,395,176</u> |
| <b>Supplemental information</b>   |                      |                     |
| Dividends received, net of withholding taxes  | \$ 1,653,697         | \$ 1,979,462        |
| Interest received, net of withholding taxes   | 44,077               | 96,097              |

See accompanying notes to the financial statements.

## SCHEDULE OF INVESTMENTS

June 30, 2015 (unaudited)

| Number of shares / par value         | Investments owned                       | Average cost | Fair value   | % of net assets |
|--------------------------------------|---|--------------|--------------|-----------------|
| <b>CANADIAN EQUITIES</b>             |   |              |              |                 |
| <b>Oil and Gas Corporations</b>      |   |              |              |                 |
| 62,712                               | ARC Resources Ltd.                      | \$ 1,310,881 | \$ 1,342,037 | 1.3             |
| 66,895                               | Canadian Natural Resources Ltd.         | 2,538,939    | 2,267,741    | 2.3             |
|                                      |   | 3,849,820    | 3,609,778    | 3.6             |
| <b>Integrated Financial Services</b> |   |              |              |                 |
| 34,075                               | Power Financial Corp.                   | 1,012,455    | 1,222,270    | 1.2             |
| <b>Pipeline / Energy Investments</b> |   |              |              |                 |
| 100,000                              | Baytex Energy Corp.                     | 1,851,673    | 1,943,000    | 2.0             |
| 74,945                               | Cenovus Energy Inc.                     | 2,010,945    | 1,496,652    | 1.5             |
| 125,000                              | Crescent Point Energy Corp.             | 3,643,804    | 3,203,750    | 3.2             |
| 30,000                               | Enbridge Inc.                           | 752,258      | 1,752,300    | 1.8             |
| 50,000                               | Inter Pipeline Ltd.                     | 681,565      | 1,435,000    | 1.4             |
| 48,000                               | Keyera Corp.                            | 660,333      | 2,001,600    | 2.0             |
| 30,000                               | Pembina Pipeline Corp.                  | 587,479      | 1,211,100    | 1.2             |
| 40,435                               | Suncor Energy Inc.                      | 1,369,106    | 1,390,964    | 1.4             |
| 27,000                               | Transcanada Corp.                       | 996,197      | 1,370,520    | 1.4             |
|                                      |   | 12,553,360   | 15,804,886   | 15.9            |
| <b>Materials</b>                     |   |              |              |                 |
| 80,000                               | Barrick Gold Corp.                      | 1,442,351    | 1,068,000    | 1.1             |
| 33,130                               | Cameco Corp.                            | 796,983      | 592,033      | 0.6             |
| 845,750                              | Capstone Mining Corp.                   | 1,744,528    | 1,031,814    | 1.0             |
| 53,000                               | Goldcorp Inc.                           | 1,434,804    | 1,074,310    | 1.1             |
| 209,235                              | HudBay Minerals Inc.                    | 2,447,045    | 2,176,044    | 2.2             |
| 302,800                              | Major Drilling Group International Inc. | 2,268,018    | 1,892,500    | 1.9             |
| 360,100                              | Sherritt International Corp.            | 1,032,371    | 752,609      | 0.8             |
| 100,000                              | Teck Resources Ltd.                     | 2,587,080    | 1,238,000    | 1.2             |
|                                      |   | 13,753,180   | 9,825,310    | 9.9             |
| <b>Telecommunications</b>            |   |              |              |                 |
| 45,550                               | BCE Inc.                                | 1,798,495    | 2,416,883    | 2.4             |
| 39,470                               | Rogers Communications Inc.              | 1,398,179    | 1,748,521    | 1.8             |
| 33,920                               | TELUS Corp.                             | 958,334      | 1,459,578    | 1.5             |
| 37,000                               | Thomson Reuters Corp.                   | 1,203,999    | 1,759,720    | 1.8             |
|                                      |   | 5,359,007    | 7,384,702    | 7.5             |

## SCHEDULE OF INVESTMENTS

June 30, 2015 (unaudited)

| Number of shares / par value         | Investments owned                         | Average cost | Fair value | % of net assets |
|--------------------------------------|---|--------------|------------|-----------------|
| <b>Financial Services</b>            |   |              |            |                 |
| 73,590                               | Bank of Nova Scotia                       | 3,732,162    | 4,744,347  | 4.8             |
| 40,000                               | Canadian Imperial Bank of Commerce        | 3,069,388    | 3,682,800  | 3.7             |
| 39,850                               | Dream Office Real Estate Investment Trust | 1,094,496    | 977,919    | 1.0             |
| 59,920                               | Great-West Lifeco Inc.                    | 1,546,295    | 2,178,691  | 2.2             |
| 122,528                              | Manulife Financial Corp.                  | 2,217,639    | 2,843,875  | 2.9             |
| 77,850                               | Royal Bank of Canada                      | 4,352,592    | 5,946,183  | 6.0             |
| 119,000                              | Toronto-Dominion Bank                     | 4,143,244    | 6,311,760  | 6.3             |
|                                      |   | 20,155,816   | 26,685,575 | 26.9            |
| <b>Consumer Goods &amp; Services</b> |   |              |            |                 |
| 43,430                               | Canadian National Railway Co.             | 1,482,878    | 3,129,565  | 3.2             |
| <b>Retail</b>                        |   |              |            |                 |
| 95,000                               | Reitmans Canada Ltd.                      | 835,820      | 618,450    | 0.6             |
| <b>TOTAL CANADIAN EQUITIES</b>       |   | 59,002,336   | 68,280,536 | 68.8            |
| <b>INTERNATIONAL EQUITIES</b>        |   |              |            |                 |
| 36,880                               | HSBC Holdings PLC, ADR                    | 1,926,351    | 2,063,188  | 2.1             |
| 52,435                               | Rio Tinto PLC, Sponsored ADR              | 2,607,800    | 2,697,720  | 2.7             |
| 37,200                               | Royal Dutch Shell PLC, ADR                | 2,779,305    | 2,647,688  | 2.7             |
| 27,130                               | Total SA, ADR                             | 1,390,346    | 1,665,417  | 1.7             |
| 26,705                               | Vodafone Group PLC, ADR                   | 761,814      | 1,215,243  | 1.2             |
| <b>TOTAL INTERNATIONAL EQUITIES</b>  |   | 9,465,616    | 10,289,256 | 10.4            |
| <b>U.S. EQUITIES</b>                 |   |              |            |                 |
| 60,000                               | Bank of America Corp.                     | 846,930      | 1,274,922  | 1.3             |
| 28,000                               | Coach Inc.                                | 1,146,888    | 1,209,853  | 1.2             |
| 31,200                               | Financial Select Sector SPDR Fund         | 662,459      | 949,645    | 1.0             |
| 11,200                               | Johnson & Johnson Inc.                    | 740,260      | 1,362,754  | 1.4             |
| 63,075                               | Pfizer Inc.                               | 1,174,777    | 2,640,363  | 2.6             |
| 15,265                               | Philip Morris International Inc.          | 778,645      | 1,527,853  | 1.5             |
| 12,876                               | Verizon Communications Inc.               | 416,181      | 749,261    | 0.8             |
| <b>TOTAL U.S. EQUITIES</b>           |   | 5,766,140    | 9,714,651  | 9.8             |

## SCHEDULE OF INVESTMENTS

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June 30, 2015 (unaudited)

| <b>Number of<br/>shares / par value</b> | <b>Investments owned</b>  | <b>Average<br/>cost</b> | <b>Fair<br/>value</b> | <b>% of<br/>net assets</b> |
|---|---|-------------------------|-----------------------|----------------------------|
|   | <b>TOTAL INTERNATIONAL AND U.S. EQUITIES</b>                            | 15,231,756              | 20,003,907            | 20.2                       |
|   | Transaction Costs   | (165,884)               | —                     | —                          |
|   | <b>Total investments</b>  | <u>\$ 74,068,208</u>    | 88,284,443            | 89.0                       |
|   | <b>Other assets, net of liabilities</b>                                 |                         | 10,900,104            | 11.0                       |
|   | <b>Total net assets attributable to holders of<br/>redeemable units</b> |                         | <u>\$ 99,184,547</u>  | 100.0                      |

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

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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 1325 Lawrence Avenue East, Suite 200, Toronto, ON, M3A 1C6, Canada.

### (b) Description of the Fund

The Fund is a closed-end investment trust. Artemis Investment Management Limited is the investment fund manager of the Fund ("Artemis" or the "Manager"). 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").

The financial statements were authorized for issue by Artemis Investment Management Limited on August 28, 2015.

## 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 ("NAV") 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, 2014 the Fund had non-capital losses of approximately \$490,752 (December 31, 2013 – \$2,962,020) that expire in 2033.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standards 34 Interim Financial Reporting ("IAS 34") as published by the International Accounting Standards Board ("IASB") and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

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### (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 trade 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 presented 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 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 FVTPL 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 trade 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.

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 included in net realized gain on sale of investments and change in unrealized appreciation (depreciation) on investments in the statements of comprehensive income.

### (f) Distributions

Distributions to unitholders are recorded by the Fund when declared.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

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### **(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 FVTPL.

As at June 30, 2015 and December 31, 2014, 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 periods.

### **(i) Future accounting changes**

The IASB has issued the following new standard 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 2009, IFRS 9, Financial Instruments ("IFRS 9"), was issued and subsequently amended October 2010. This is the first phase of the project on classification and measurement of financial assets and liabilities. IFRS 9 will replace International Accounting Standard 39, Financial Instruments – Recognition and Measurement ("IAS 39") and will be completed in three phases, which include limited amendments to classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. Accounting for macro hedging was removed from IFRS 9 and is expected to be issued as a separate standard. IFRS 9 is effective for fiscal years beginning on or after January 1, 2018. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The Manager continues to evaluate the impact of IFRS 9 on its financial statements.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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:

### **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 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.

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.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

### 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; and  |
| 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, 2015 and December 31, 2014.

| <b>June 30, 2015</b>      | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|---------------------------|----------------|----------------|----------------|---------------|
| Financial assets at FVTPL |                |                |                |               |
| Equities                  | \$ 88,284,443  | —              | —              | \$ 88,284,443 |
| Total                     | \$ 88,284,443  | —              | —              | \$ 88,284,443 |

There were no transfers between categories or Level 3 transactions during the period ended June 30, 2015.

| <b>December 31, 2014</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
|---------------------------|----------------|----------------|----------------|---------------|
| Financial assets at FVTPL |                |                |                |               |
| Equities                  | \$ 91,798,077  | —              | —              | \$ 91,798,077 |
| Bonds                     | —              | 3,882,633      | —              | 3,882,633     |
| Total                     | \$ 91,798,077  | 3,882,633      | —              | \$ 95,680,710 |

There were no transfers between categories or Level 3 transactions during the year ended December 31, 2014.

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, payable for investments purchased, redemptions payable, distributions payable, and accrued liabilities 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.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

### (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.

The Fund's redeemable securities entitle unitholders the right to redeem their interest in the Fund for cash equal to their proportionate share of the net asset value of the Fund, amongst other contractual rights. These redeemable securities involve multiple contractual obligations on the part of the Fund and, therefore, meet the criteria for classification as financial liabilities. The Fund's obligation for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount as of the reporting date.

The following Unit transactions took place during the periods ended June 30, 2015 and 2014:

### (a) Units issued and outstanding:

| For the periods ended       | June 30, 2015 | June 30, 2014 |
|-----------------------------|---------------|---------------|
| Units — beginning of period | 22,791,956    | 25,041,625    |
| Issued under DRIP           | 19,586        | 224,946       |
| Units — end of period       | 22,811,542    | 25,266,571    |

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 NAV per Unit less any retraction costs.

### (b) Redemptions and 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 Fund did not repurchase any Units for cancellation during the periods ended June 30, 2015 and 2014 (note 10).

No units were redeemed through the monthly redemption feature offered during 2015 and 2014, as at June 30.

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 NAV 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.

### (c) Distribution Reinvestment Plan:

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.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

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### 8. RELATED PARTY TRANSACTIONS

The Fund is responsible for all expenses incurred on its behalf. 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 NAV of the Fund plus applicable taxes, calculated and payable monthly. For the period ended June 31, 2015, management fees totaled \$560,609 (2014 – \$626,707), of which \$100,586 was payable as at June 30, 2015 (2014 – \$29,312).

The Portfolio Advisor receives a fee of 0.33% per annum of the average NAV of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the period ended June 30, 2015, investment management fees totaled \$185,001 (2014 – \$209,817), of which \$33,193 was payable at June 30, 2015 (2014 – \$33,301).

Administrative Expenses for the period ended June 30, 2015 totaled \$256,114 (2014 – \$287,696). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis receives \$35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies.

For redemptions or repurchases the Manager is entitled to receive a fee per Unit of 5% of the NAV per Unit plus applicable taxes.

### 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, 2015, had the prices on the benchmark index raised (lowered) by 5%, with all other variables held constant, net assets attributable to holders of redeemable Units would have increased (decreased) by approximately \$2,778,343 (approximately 2.8% of NAV) (December 31, 2014 – \$2,452,590, approximately 2.4% of NAV). In practice, the actual results may differ and the difference could be material. The benchmark index consists of a 65% allocation in iShares S&P/TSX 60 Fund (XIU), a 15% allocation in SPDR Dow Jones Industrial Average ETF (DIA), a 10% allocation in DEX Universe Bond Index Fund (XBB) and a 10% allocation in Canadian Treasury Bills.

#### (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, 2015, the Fund invested approximately 25.7% (December 31, 2014 – 28.4%) of the net assets in U.S. currency. At June 30, 2015, 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 \$1,275,902 (approximately 1.3% of NAV) (December 31, 2014 – \$1,449,896, approximately 1.4% of NAV). In practice, the actual results may differ and the difference could be material.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

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### (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, 2015, the Fund had approximately 89.0% of the investment portfolio in equity securities (December 31, 2014 – 89.8%). 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, 2015, 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 nil (December 31, 2014 – \$83,163). In practice, the actual results may differ and the difference could be material.

### (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 (2014: AA) based on DBRS ratings. The Manager monitors the financial position on an on-going basis.

As at June 30, 2015, nil of the Fund's investments had credit risk exposure (December 31, 2014 – \$3,882,633).

### (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, 2015 and December 31, 2014, the Fund's liquidity risk is considered minimal.

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

### (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                        | Percentage of NAV |                      |
|-------------------------------|-------------------|----------------------|
|                               | June 30,<br>2015  | December 31,<br>2014 |
| Bonds                         |                   |                      |
| Canadian corporate bonds      | —                 | 3.4                  |
| International corporate bonds | —                 | 0.4                  |
| Canadian equities             |                   |                      |
| Oil and gas corporations      | 3.6               | 4.6                  |
| Pipeline/Energy investments   | 15.9              | 11.9                 |
| Materials                     | 9.9               | 9.5                  |
| Consumer goods and services   | 3.2               | 4.6                  |
| Retail                        | 0.6               | 0.7                  |
| Financial services            | 26.9              | 26.9                 |
| Integrated financial services | 1.2               | 1.2                  |
| Telecommunication services    | 7.5               | 8.9                  |
| U.S. equities                 | 9.8               | 11.8                 |
| International equities        | 10.4              | 9.7                  |
| Other assets less liabilities | 11.0              | 6.4                  |
| Total                         | 100.0             | 100.0                |

### 10. 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 periods ended June 30, 2015 and 2014, the Fund did not repurchase any Units for cancellation under its NCIB program.

### 11. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS

The brokerage commissions paid for the period ended June 30, 2015 were \$59,002 (2014 — \$29,146). The commissions were incurred solely for order execution services. Such costs are expensed and are included in transaction costs in the statements of comprehensive income. The Fund paid \$3,893 in soft dollar commission for the period ended June 30, 2015 (2014 — \$4,380).

### 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 the amended and restated declaration of trust as of March 7, 2014 (the "Declaration of Trust").

## NOTES TO FINANCIAL STATEMENTS

Period ended June 30, 2015 (unaudited)

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### 13. FINANCIAL INSTRUMENTS BY CATEGORY

The Fund's financial instruments as at June 30, 2015 and December 31, 2014 are designated as FVTPL with the exception of accrued interest, dividends receivable, prepaid expenses, other receivables, distributions payable, management fees payable and accounts payable and accrued liabilities, which are classified as loans and receivables.

For the periods ended June 30, 2015 and 2014, the Fund's net gains (losses) on financial instruments with the exception of derivatives, were all on financial instruments designated as FVTPL.

### 14. RECENT DEVELOPMENTS

#### **Monthly distribution for 2015**

On January 23, 2015, the Fund announced distributions for 2015 of \$0.01 per Unit per month. Unitholders of record on the last day of each month of 2015 will be paid cash distributions of \$0.01 on the 15th day (or first business date thereafter) of the ensuing month.

## CORPORATE INFORMATION

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### MANAGER/TRUSTEE

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### AUDITOR

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### STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Citadel Income Fund Units: **CTF.UN**

### INVESTMENT MANAGER

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### INDEPENDENT REVIEW COMMITTEE

Peter Chodos

John Mills

Michael Newman

### DIRECTORS OF THE MANAGER/TRUSTEE

Conor Bill — Director

Trevor Maunder — Director

Gavin Swartzman — Director

### OFFICERS OF THE MANAGER/TRUSTEE

Conor Bill — Chief Executive Officer

Trevor Maunder — Chief Financial Officer and Secretary

Sean Lawless — Chief Compliance Officer

Anthony Shapiro — General Counsel

Robert Kidd — Vice President, Business Development

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## Investment Management



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