

Artemis

Investment Management

CITADEL INCOME FUND

ANNUAL REPORT 2012

DECEMBER 31, 2012

TABLE OF CONTENTS

CITADEL INCOME FUND

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

INVESTMENT HIGHLIGHTS:

For the years ended December 31	**2012**	2011	2010	2009	2008
Net assets per unit (1)(3)	$ **4.54**	$ 5.30	$ 5.74	$ 5.62	$ 5.36
Market price per unit (1)(3)	$ **4.02**	$ 3.88	$ 5.21	$ 5.15	$ 3.97
Trading discount	**(11.5)%**	(26.8)%	(9.2)%	(8.7)%	(25.9)%
Cash distributions per unit (3)	$ **0.36**	$ 0.36	$ 0.48	$ 0.45	$ 0.61
Trailing yield (2)	**8.9%**	9.3%	9.2%	8.6%	18.1%
Market capitalization ($ millions)	$ **94.41**	$ 116.06	$ 167.57	$ 216.96	$ 7.56
Net assets ($ millions)	$ **106.63**	$ 158.62	$ 184.67	$ 236.76	$ 10.20

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

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

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

MANAGEMENT REPORT OF FUND PERFORMANCE

April 2, 2013

This annual report for the year ended December 31, 2012 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Income Fund.

To obtain a copy of the Fund's proxy voting disclosure record or quarterly portfolio disclosure, unitholders may contact the Manager by calling 416-934-7455, by writing to the Manager at Artemis Investment Management Limited, 5 Hazelton Avenue, Suite 200, Toronto, Ontario, M5R 2E1, or by visiting www.artemisfunds.ca. To obtain a copy of the Fund's financial statements or management report of fund performance, unitholders may contact the Manager using one of the aforementioned methods or visit the SEDAR website at www.sedar.com. To obtain a copy of the Fund's proxy voting policies and procedures, unitholders should contact the Manager directly.

INVESTMENT OBJECTIVES AND STRATEGIES

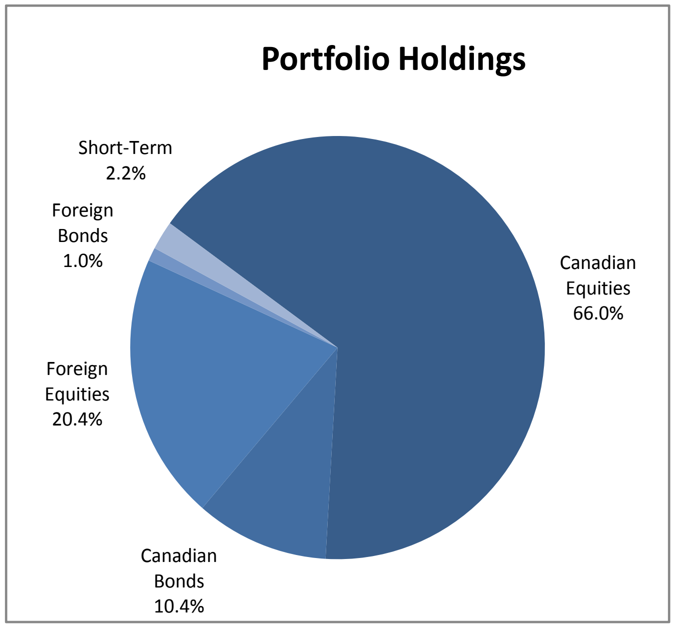
Citadel Income Fund's investment objectives are to provide unitholders with a stable stream of monthly distributions and to preserve and potentially enhance the net asset value of the Fund. The Investment Manager will seek to achieve these objectives by investing in a diversified portfolio of securities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

RISK

There are a number of risks associated with an investment in 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 distributions to its unitholders and the value of its units. Diversification and active management by the Fund's Investment Manager of the securities held in the portfolio may reduce these risks.

RESULTS OF OPERATIONS

Despite ongoing fiscal and political disruptions, 2012 was a good year. Economic indicators remain positive for the short term and an absence of bad news has generally helped investor disposition. The U.S. economy has benefited from low interest rates, particularly with regard to housing. This is encouraging for future growth, as the backlog of foreclosed properties is moving in the right direction, suggesting that home prices have stabilized and should increase modestly, thereby again building equity. In contrast, the Canadian government has been trying to cool down its housing market using tighter eligibility requirements. Meanwhile, developed world policymakers continue to struggle with high unemployment, social unrest, slow growth or recession and ever expanding sovereign debt.



Central bankers have few tools at hand and little manoeuvring room to deal with the problem. They maintain low interest rates as a way of supporting growth, sometimes turning to long term bond purchases in order to artificially keep market rates low. For now, inflation remains subdued. The reality is that fixing a problem of this magnitude requires significant time, as well as collaboration and alignment with all interested parties. Policymakers may think long term, but are increasingly forced to behave like politicians (short term), making the process far more arduous and slower than planned.

Emerging market economies will continue to lead global economic growth in 2013, as they have the means and the desire to do so. Developed market growth is positive, but will slow in the midterm, despite an improving U.S. economy and continued substantial policy moves from their central bankers. Maintaining market stability in the financial system remains the order of the day. It is likely that there will be an economic environment of prolonged sluggish growth. Financial consensus among policymakers will be slow and difficult to obtain. Volatility is expected to persist for some time.

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

Citadel Income Fund's net assets decreased to $106.63 million as at December 31, 2012 from $158.62 million as at December 31, 2011 due primarily to retractions of $121.03 million and repurchases made under the normal course issuer bid ("NCIB") program of $15.33 million throughout 2012 and distributions to unitholders of $12.51 million. This was partially offset by an increase in net assets from operations of $6.20 million and proceeds from the exercise of warrants of $90.55 million.

The Fund's net assets per unit decreased to $4.54 per unit as at December 31, 2012 from $5.30 per unit as at December 31, 2011. The decrease in the Fund's net assets per unit, coupled with its monthly cash distributions, resulted in a negative total return of 7.54% over the year (2011 - negative total return of 1.39%). Excluding the dilutive effect of the warrant offering program, the Fund achieved a positive total return of 3.51% over the year.

The Fund's market price per unit increased to $4.02 per unit at December 31, 2012 from $3.88 per unit at December 31, 2011. The increase in the Fund's market price per unit, coupled with its monthly cash distributions, resulted in a 12.89% total return over the year. (2011 - positive total return of 10.49%).

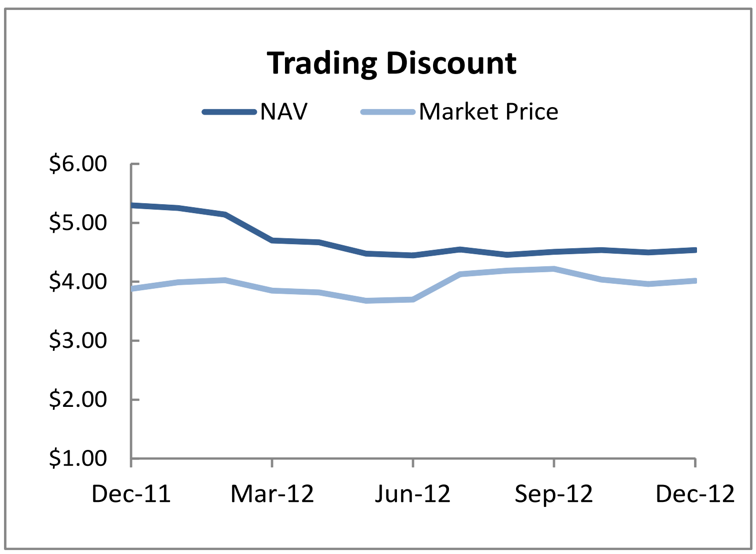
Total revenue for 2012 was $5.89 million compared to $6.54 million in 2011. The change in revenue was primarily due to an decrease in portfolio holdings. Total expenses for 2012 were $3.90 million compared to $4.51 million in 2011, again as a result of a smaller portfolio and net asset value. Management fees, which are calculated in reference to the Fund's net asset value, decreased to $1.82 million in 2012 compared to $1.88 million in 2011. Investment management fees, which also are calculated in reference to the Fund's net asset value, increased to $0.60 million in 2012 compared to $0.58 million in 2011. Administrative expenses were $0.49 million for 2012 compared to $0.48 million for 2011. In 2012, the Fund generated net investment income of $1.98 million or $0.05 per unit compared to $2.03 million or $0.07 per unit in 2011.

The Fund realized gains of $3.84 million on the sale of investments in 2012 and experienced a change in unrealized appreciation in the value of investments of $0.53 million. In 2011, the Fund had realized gains on the sale of investments of $3.79 million and experienced a change in unrealized depreciation in the value of investments of $5.53 million. The Fund also had a net realized loss on foreign currency of $0.15 million in 2012 compared to a gain of $0.01 million in 2011. As a result, the Fund experienced net income from operations of $6.20 million or a gain of $0.17 per unit in 2012 compared to net income from operations of $0.31 million or a gain of $0.01 per unit for the same period in 2011.

For the years ended December 31, 2012 and 2011, Citadel Income Fund paid total cash distributions of $0.36 per unit based on monthly distributions of $0.03 per unit.

TRADING PREMIUM/DISCOUNT TO NET ASSET VALUE

For 2012, the Fund's market price traded at an average discount to its net asset value per unit of 14.69%, compared to an average discount of 14.79% in 2011. With this discount, the Fund repurchased 3,253,300 units for cancellation under its NCIB program at an average cost of $4.71 per unit. The NCIB program, which commenced on February 1, 2010, provides liquidity and market price support for unitholders and permits the Fund to repurchase units in the open market for cancellation.



RECENT DEVELOPMENTS

Regulatory Issues

On March 4, 2011, preliminary prospectuses for offerings of warrants for both Citadel Income Fund and Energy Income Fund (the "Funds") were filed by Crown Hill Capital Corporation ("Crown Hill"), the former manager to the Funds. Staff of the Ontario Securities Commission ("Staff") recommended against receipting the prospectuses due to the widely publicized acquisition (the "Acquisition") by Crown Hill Fund of the administration contracts of the Citadel Group of Funds in June 2009 and the subsequent merger of some of those funds with the Crown Hill Fund, forming the Citadel Income Fund. At the time, Staff expressed their concerns with the Acquisition and the disclosure made in the June 3, 2009 information circular. After Crown Hill made changes to the proposed reorganization to address Staff's concerns, a new information circular was issued, approved by unitholders, and the reorganization was partially completed to create the Citadel Income Fund. Despite Crown Hill's response, Staff continued to raise the same concerns with the Acquisition nearly two years later, and used those same arguments to recommend that the Director of Investment Funds deny the receipting of the prospectus in relation to the warrant offering.On April 14, 2011, Crown Hill and the Funds availed themselves of the Opportunity to be Heard (the "OTBH") before the Director of Investment Funds. The OTBH meeting was adjourned and reconvened on May 11, 2011 with another (acting) Director. In the meantime, on May 6, 2011, Staff served Crown Hill and its President with an enforcement notice relating to the Acquisition. On May 11, 2011, the second (acting) Director upheld Staff's recommendation.

On May 31, 2011, Crown Hill and the Funds sought a hearing and review (the "Hearing and Review") of the Director's decision (pursuant to subsection 8(2) of the Securities Act) before the Ontario Securities Commission (the "Commission"). The application was heard on July 12, 13, and 14, 2011. Three business days prior to the Hearing and Review, July 7, 2011, Staff issued a Notice of Hearing and Statement of Allegations against Crown Hill and its President. It is alleged in the Statement of Allegations that the Citadel Acquisition was undertaken primarily in the interests of Crown Hill rather than the Fund, contrary to s.116 of the Securities Act. This was the same submission made by Staff at the OTBH and then at the Hearing and Review. In addition, Staff allege that the acquisition of the management contracts for the Fairway Diversified Income and Growth Trust and subsequent merger in January 2009 was also primarily in the interests of Crown Hill. Finally, Staff allege that certain amendments to the Declaration of Trust of MACCs Sustainable Yield Trust (the predecessor trust to Crown Hill Fund) to increase the management fee, grant broader powers to Crown Hill and to adopt less restrictive investment requirements, were also undertaken primarily to benefit Crown Hill.

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

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

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

On August 8, 2011, Crown Hill and its President attended before the Commission and requested the earliest available hearing dates to address the allegations made by Staff in the enforcement proceeding. A hearing before the Commission commenced in May 2012 and, due to various scheduling issues, concluded in September 2012. Currently, Crown HIll is awaiting a decision by the Commission.

Warrant Offering

On September 27, 2011, the Fund announced that it had filed a final short form prospectus relating to its warrant offering. Each unitholder of record on October 7, 2011 received one new warrant for each unit held. A total of 28,997,019 warrants were issued. Each warrant entitled the unitholder to purchase a new unit upon payment of the subscription price of $4.00. The Fund paid a fee at the time of exercise equal to $0.10 per warrant to the broker. Warrants could be exercised at any time before the earlier of i) March 8, 2012, or ii) such date which is 20 business days from the date the embedded call feature in the warrants is exercised by the Fund in accordance with the terms of the warrant offering.

The exercise of warrants by warrant holders provided the Fund with additional capital to take advantage of attractive investment opportunities, reduce the management expense ratio, and increase the trading liquidity of the Fund's units. On March 9, 2012, upon completion of the warrant offering program, a total of 24,591,569 warrants were exercised for net proceeds of $95,907,119 in 2012 and 2011 combined after expenses totalling $2,459,157.

Annual Redemption Privilege

Under the Declaration of Trust, the maximum number of units redeemable at any point in time pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year less the number of units repurchased for cancellation by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). The public float as determined on November 30, 2011 was 29,830,378 units and 10% of the public float was 2,983,037 units. From January 1, 2012 to December 31, 2012, the Fund repurchased 3,253,300 units for cancellation. The Maximum Redemption Amount was reached prior to the end of the twelve-month period ending November 30, 2012 and therefore no additional units were redeemable under the 2012 annual redemption privilege.

Partial Redemption Feature

On February 14, 2012, the Fund announced that up to 5,000,000 units of the Fund may be redeemed on March 29, 2012 for an amount per unit equal to the net asset value retraction price ("NAV Retraction Price") as of March 23, 2012. The NAV Retraction Price was an amount equal to 100% of the net asset value per unit less any retraction costs. The retraction costs were 0.85% of the net asset value per unit. Beneficial holders of units had to submit their request to redeem units by no later than March 20, 2012. Requests for redemptions were oversubscribed and all 5,000,000 units were redeemed. The units were redeemed on a pro rata basis at a redemption price of $4.71 per unit.

Normal Course Issuer Bid Program

Effective February 6, 2013, the Fund renewed its NCIB program to permit the Fund to purchase up to 2,248,541 of the outstanding units on the TSX from time to time. The Fund may purchase units in the market for cancellation if the Manager determines that such purchases provide liquidity to unitholders. Under the NCIB program, the Fund may purchase up to 2,248,541 units, representing approximately 10% of the public float of 22,248,417 units. Additionally, the Fund may not purchase more than 449,708 units in any 30-day period, representing 2% of the issued and outstanding units. If these purchases are made, they will be made in accordance with applicable regulations over a twelve-month period ending February 5, 2014. Units purchased will be cancelled.

Unitholder Meetings

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

In the special meeting on August 7, 2012, unitholders voted in favour of the extraordinary resolution. On August 17, 2012, the Fund's special retraction price was determined to be $4.29 per unit. On August 22, 2012, 21,330,664 units were redeemed at the Fund's special retraction price. Crown Hill received a fee payment of $5,483,724 on the special retraction.

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

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

Change in Manager

On January 15, 2013, Crown Hill announced that it had tendered its resignation as manager. Such resignation was effective upon the appointment of Artemis as the new manager of the Fund, which subsequently took place on January 16, 2013. A termination payment of $6,047,697, which was equal to the product of the net asset value and five percent plus applicable taxes, was paid to Crown Hill. In addition, expenses totalling $949,200 resulting from the resignation such as costs incurred to terminate employees, office and equipment leases and agreements for services were paid to Crown Hill.

Future Accounting Changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning January 1, 2014 and issue first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The 2014 semi-annual and annual financial statements will include 2013 comparative financial information and an opening statement of net assets as at January 1, 2013, also prepared in accordance with IFRS.

The Manager has begun to develop a transition plan to changeover to IFRS. Currently, the expected impact to the financial statements based on the Manager's assessment of the differences between current Canadian GAAP and IFRS are as follows: i) IFRS 13 *Fair Value Measurement* permits the use of mid-market prices 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, net assets for financial reporting purposes may be impacted and could align with the transactional net assets used to price unitholder transactions, eliminating the need for a reconciliation; ii) Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As a result, unitholders' equity may be required to be presented as a liability in the statement of net assets with related distributions presented as an expense in the statement of operations. Alternatively, equity presentation would require additional disclosure of the components of equity; iii) IFRS requires the presentation of a statement of cash flows, including comparatives for 2013; iv) Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

RELATED PARTY TRANSACTIONS

The Manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2012, management fees totaled $1,818,530 (December 31, 2011 - $1,883,928), of which $90,846 was payable as at December 31, 2012 (December 31, 2011 - $128,308). All other expenses of the Fund are initially paid by the Manager, which is then reimbursed by the Fund in a reasonable amount of time.

Legal expenses for the year ended December 31, 2012 totaled $351,087 (December 31, 2011 - $962,110). This includes $907,036 (December 31, 2011 - $288,203) in legal fees incurred on behalf of Crown HIll and a director of Crown Hill in accordance with an indemnification provision contained in the Declaration of Trust. The Fund also maintains insurance for the benefit of Crown Hill and the directors of Crown Hill against these types of expenses. For the legal fees incurred, the Fund has been reimbursed by the insurer for the amount of $888,275. The Fund will continue seeking reimbursement from the insurer for the legal fees incurred.

Administrative expenses for the year ended December 31, 2012 totaled $494,876 (December 31, 2011 - $482,148). As part of these expenses, the Fund paid a general overhead cost of $35,000 per month plus applicable taxes in 2012 (2011 - $30,000 per month) to cover related administrative salaries, employee benefits, general overhead, and office supplies.

On December 18, 2009, the Fund sold its interest in the units of CH Fund Administration LP to Crown Hill. In connection with this purchase, the Fund received a promissory note (the "Note") from Crown Hill in the amount of $9,955,000. On November 19, 2010, $213,904 was added to the outstanding balance on the Note. Under the Note, the principal shall be reduced by the following three mechanisms: (i) retraction fee equal to costs associated with the retraction plus an amount equal to the departing unitholders' proportionate share of the Note; (ii) reduction in the Note by an amount equal to the difference between the amount the Fund paid for the units under the NCIB and the NAV of the unit at the time of repurchase, multiplied by the number of units; and (iii) at least 90% of the tax-adjusted amount of the management fee less any reasonable expenses incurred relating to managing the Fund and costs associated with the Note, as well as recourse to the other assets of Crown Hill.

The balance of the Note at year end was $nil (December 31, 2011 - $2,275,175). During 2012 the Note was reduced under (i) by $149,671 (December 31, 2011 - $nil and since inception a total of $2,243,413); under (ii) by $2,125,504 (December 31, 2011 - $2,677,239 and since inception a total of $4,980,491); and under (iii) by $nil (December 31, 2011 - $1,400,000 and since inception a total of $2,945,000). During 2012, interest payments of $27,304 (December 31, 2011 - $218,176) were received.

For repurchases made subsequent to the amended and restated Declaration of Trust as of August 9, 2012, the Manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the year ended December 31, 2012, redemption fees totaled $5,651,317, of which $45,482 was payable as at December 31, 2012.

FINANCIAL HIGHLIGHTS

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

Net Assets per Unit ("NAPU")

For the years ended December 31	**2012**	2011	2010	2009	2008
NAPU — beginning of year (1)	**$ 5.30**	$ 5.74	$ 5.62	$ 5.36	$ 9.32
Increase (decrease) from operations:					
Total revenue	**0.16**	0.21	0.27	0.22	0.28
Total expenses	**(0.11)**	(0.14)	(0.12)	(0.19)	(0.35)
Realized gains	**0.11**	0.12	0.29	0.19	0.34
Unrealized gains (losses)	**0.01**	(0.18)	0.14	0.73	(2.29)
Total increase (decrease) from operations (2)	**$ 0.17**	$ 0.01	$ 0.58	$ 0.95	$ (2.02)
Distributions:					
From net investment income	**0.04**	0.04	0.17	-	-
From capital gains	**-**	0.09	0.20	0.14	-
Return of Capital	**0.32**	0.23	0.11	0.31	0.72
Total cash distributions	**0.36**	0.36	0.48	0.45	0.72
NAPU — end of year	**$ 4.54**	**$ 5.30**	**$ 5.74**	**$ 5.62**	**$ 5.36**

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

(2) The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial year. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statements of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

For the years ended December 31	**2012**	2011	2010	2009	2008
Total net asset value ($ 000,000's)	**$ 106.63**	$ 158.62	$ 184.67	$ 236.76	$ 10.20
Number of units outstanding (000's)	**23,485**	29,912	32,163	42,128	1,903
Management expense ratio (1)	**3.58%**	4.21%	2.08%	3.35%	4.28%
Portfolio turnover ratio (2)	**38.33%**	6.44%	48.91%	184.36%	41.11%
Trading expense ratio (3)	**0.06%**	0.02%	0.08%	0.39%	0.04%
Closing market price	**$ 4.02**	$ 3.88	$ 5.21	$ 5.15	$ 3.97

(1) Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the period and is expressed as an annualized percentage of weekly average net asset value during the year. For 2011, the management expense ratio has been restated to include the reduction in the Note by an amount equal to the difference between the amount the Fund paid for the units under the NCIB and the NAV of the unit at the time of repurchase, further described in Note 9 of the financial statements.

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

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

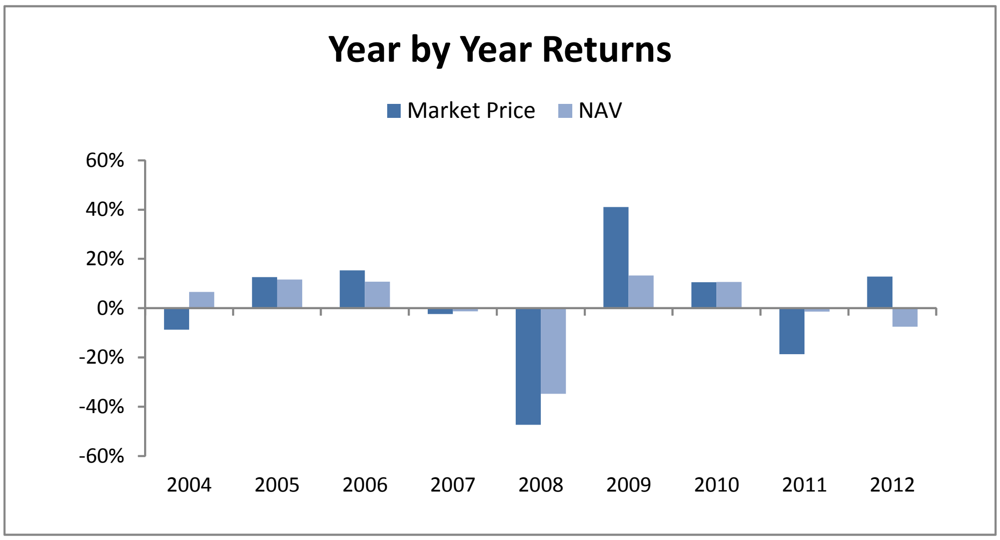
MANAGEMENT FEES

In consideration for its services as manager of the Fund, the Manager is entitled to receive a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. The Investment Manager receives an investment management fee payable from the Fund. Jarislowsky Fraser Ltd. receives a fee of 0.33% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services.

PAST PERFORMANCE

Citadel Income Fund's performance numbers represent the annual compound total returns over the year from inception in June 2004 to December 31, 2012 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

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



(1) For 2012 and prior years, this represents the annual return, unadjusted for the exercise of warrants, for the twelve-month period ended December 31.

ANNUAL COMPOUND RETURNS

The following table presents the annual compound returns for Citadel Income Fund based on the market price and net assets per unit for the years indicated to December 31, 2012.

	1-Year	3-Year	5-Year	Since Inception
Citadel Income Fund (market price)	12.89%	0.50%	(5.48)%	(1.55)%
Citadel Income Fund (net assets)	(7.54)%	0.30%	(5.71)%	(0.35)%
Citadel Income Fund (net assets excluding warrants) (1)	3.51%	4.52%	(3.35)%	1.10 %
iShares S&P/TSX 60 Index Fund	7.80%	3.60%	0.21%	7.65%
Composite benchmark (2)	6.87%	4.63%	1.43%	6.64%

(1) This calculation adjusts for the dilution effect of the warrant distribution.

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

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2012

Net Assets: $106,625,257

The major portfolio categories and top holdings of the Fund at the end of the year are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. The next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2013. Quarterly updates are available at www.artemisfunds.ca.

Portfolio by Sector	% of Total Net Assets
Canadian Equities	
Pipeline/Energy Investments	18.6
Financial Services	15.8
Consumer Goods & Services	10.6
Telecommunications	10.6
Oil & Gas Corporations	5.1
Materials	3.4
Ongoing Business Trusts	1.9
Total Canadian Equities	66.0
Canadian Bonds	10.4
Foreign Bonds (U.S., U.K.)	1.0
Foreign Equities (U.S., U.K., France)	20.4
Other Assets, Net of Liabilities	2.2
Total Net Assets	100.0%

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

Toronto-Dominion Bank	4.8
Royal Bank of Canada	4.1
Bank of Nova Scotia	3.6
Metro Inc.	2.7
SNC-Lavalin Group Inc.	2.5
Canadian Natural Resources Ltd.	2.4
Enbridge Inc.	2.2
Transcanada Corp.	2.2
Canadian National Railway Co.	2.2
Cenovus Energy Inc.	2.2
Suncor Energy Inc.	2.2
HSBC Holdings PLC, ADR	2.0
Rogers Communications Inc.	2.0
Inter Pipeline Fund	1.9
Thomson Reuters Corp.	1.9
BCE Inc.	1.8
Talisman Energy Inc.	1.8
Encana Corp.	1.8
BP PLC, ADR	1.8
Pfizer Inc.	1.7
Great-West Lifeco Inc.	1.7
Potash Corporation of Saskatchewan Inc.	1.7
National Grid PLC, ADR	1.7
Johnson & Johnson Inc.	1.6
Manulife Financial Corp.	1.6

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

CITADEL INCOME FUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2012 AND 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

Conor Bill
Chief Executive Officer
Artemis Investment Management Limited

Trevor Maunder
Chief Financial Officer
Artemis Investment Management Limited

April 2, 2013

INDEPENDENT AUDITORS' REPORT

To the Unitholders of **Citadel Income Fund**

We have audited the accompanying financial statements of Citadel Income Fund, which comprise the statements of investments and net assets as at December 31, 2012 and 2011, and the statements of operations and changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Citadel Income Fund as at December 31, 2012 and 2011, and results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

April 2, 2013

STATEMENTS OF NET ASSETS

As at December 31		2012		2011
Assets				
Investments at fair value	$	**104,269,121**	$	153,340,134
Cash and cash equivalents		**2,813,182**		4,437,177
Dividends and interest receivable		**494,606**		786,683
Prepaid expenses		**163,758**		230,970
Loan receivable (Note 5)		**-**		2,275,175
Receivable for warrants exercised		**-**		6,119
		107,740,667		161,076,258
Liabilities				
Distributions payable		**704,549**		897,366
Accounts payable and accrued liabilities (Note 9)		**410,861**		537,928
Payable for investments purchased		**-**		1,025,600
		1,115,410		2,460,894
Net Assets Representing Unitholders' Equity (Note 8)	$	**106,625,257**	$	158,615,364
Units Outstanding (Note 7)		**23,484,986**		29,912,208
Net Assets per Unit (Note 4)	$	**4.54**	$	5.30

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

On behalf of the Board,

Conor Bill
Chief Executive Officer

Trevor Maunder
Chief Financial Officer

STATEMENTS OF OPERATIONS

For the years ended December 31	2012	2011
Investment Income		
Dividend income	**$ 5,030,095**	$ 5,494,514
Interest income	**855,415**	1,050,381
Total Investment Income	**5,885,510**	6,544,895
Expenses		
Management fees (Note 9)	**1,818,530**	1,883,928
Investment management fees (Note 10)	**598,246**	577,431
Administrative expenses (Note 9)	**494,876**	482,148
Legal fees (Note 9)	**351,087**	962,110
Unitholder servicing expenses	**132,040**	87,835
Custody, valuation, and transfer fees	**97,113**	85,229
Portfolio transaction costs (Note 15)	**93,724**	30,118
Insurance expense	**86,982**	89,318
Audit and review fees	**59,109**	100,574
Regulatory and listing expenses	**58,925**	116,390
Independent review committee fees	**58,565**	55,719
Board fees	**55,470**	42,477
Total Expenses	**3,904,667**	4,513,277
Net Investment Income	**1,980,843**	2,031,618
Net Realized Gain on Sale of Investments (Note 6)	**3,838,624**	3,793,919
Net Realized Gain (Loss) on Foreign Currency	**(148,352)**	5,724
Net Change in Unrealized Appreciation (Depreciation) in Value of Investments (Note 6)	**525,566**	(5,525,656)
Increase in Net Assets from Operations	**6,196,681**	305,605
Increase in Net Assets from Operations Per Unit(1)	**$ 0.17**	$ 0.01

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

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

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2012	2011
Net Assets — Beginning of Year	**$ 158,615,364**	$ 184,669,853
Operations		
Net investment income	**1,980,843**	2,031,618
Net realized gain on sale of investments	**3,838,624**	3,793,919
Net realized gain (loss) on foreign currency	**(148,352)**	5,724
Net change in unrealized appreciation (depreciation) in value of investments	**525,566**	(5,525,656)
	6,196,681	305,605
Capital Unit Transactions		
Net proceeds from exercise of warrants (Note 7)	**90,552,341**	5,361,347
Proceeds from distribution reinvestment plan	**134,543**	23,494
Paid for units redeemed - monthly redemptions	**(336,577)**	(8,367)
Loan repayment under NCIB and partial redemption (Note 9)	**(2,275,175)**	(2,677,239)
Fees paid to Manager on redemptions (Note 9)	**(5,651,317)**	-
Units repurchased and cancelled under the normal course issuer bid	**(13,046,848)**	(18,208,133)
Paid for units redeemed - March 2012 partial redemption	**(23,550,000)**	-
Paid for units redeemed - August 2012 special redemption	**(91,508,549)**	-
	(45,681,582)	(15,508,898)
Distributions to Unitholders		
From net investment income	**(1,540,204)**	(1,158,291)
From capital gains	**-**	(2,852,580)
Return of capital	**(10,965,002)**	(6,840,325)
	(12,505,206)	(10,851,196)
Decrease in Net Assets for the Year	**(51,990,107)**	(26,054,489)
Net Assets — End of Year	**$ 106,625,257**	$ 158,615,364
Distributions per Unit	**$ 0.36**	$ 0.36

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

STATEMENTS OF INVESTMENTS

	As at December 31, 2012					
	Coupon	Maturity	Par Value	Cost	Fair Value	% of Net Assets
Canadian Bonds						
Altalink Investments LP	3.674%	06/05/2019	$ 600,000	$ 600,000	$ 604,083	0.6
Bell Canada	4.400%	03/16/2018	377,000	376,683	409,660	0.4
Bell Canada	4.950%	05/19/2021	141,000	140,484	159,176	0.1
Capital Desjardins Inc.	Variable Rate	12/15/2026	600,000	625,755	678,183	0.6
Cogeco Cable Inc.	4.925%	02/14/2022	250,000	256,135	257,708	0.2
Enbridge Inc.	4.770%	09/02/2019	300,000	308,263	336,448	0.3
Enbridge Income Fund	4.850%	02/22/2022	300,000	302,250	322,710	0.3
GE Capital Canada Funding Co.	4.600%	01/26/2022	300,000	314,670	331,052	0.3
Husky Energy Inc.	5.000%	03/12/2020	550,000	566,189	621,161	0.6
Industrial Alliance Insurance	Variable Rate	06/30/2019	550,000	565,825	567,834	0.5
Intact Financial Corp.	4.700%	08/18/2021	490,000	509,411	543,505	0.5
Loblaw Companies Ltd.	6.500%	01/22/2029	530,000	552,446	610,548	0.6
Manulife Insurance Co.	Variable Rate	06/01/2022	300,000	301,530	314,111	0.3
Manulife Bank of Canada	4.680%	09/12/2016	168,000	171,229	178,883	0.2
Pembina Pipeline Corp.	4.890%	03/29/2021	600,000	622,645	662,581	0.6
Quebecor Media Inc.	7.375%	01/15/2021	500,000	500,000	542,670	0.5
Rogers Communications Inc.	4.700%	09/29/2020	500,000	499,725	551,404	0.6
Shaw Communications Inc.	5.650%	10/01/2019	550,000	569,838	618,327	0.6
Standard Life	3.938%	09/29/2022	56,000	56,000	58,036	0.1
Sun Life Financial Inc.	Variable Rate	06/01/2036	450,000	466,656	475,824	0.4
Sun Life Financial Inc.	4.570%	08/23/2021	200,000	204,380	217,162	0.2
Suncor Energy Inc.	5.800%	05/22/2018	600,000	644,432	694,990	0.7
Telus Corporation	5.050%	12/04/2019	550,000	559,452	625,676	0.6
Transcanada Pipelines Ltd.	3.650%	11/15/2021	650,000	668,050	692,327	0.6
Total Canadian Bonds				10,382,048	11,074,059	10.4

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

	As at December 31, 2012				As at December 31, 2011			
	Number of Shares	Cost	Fair Value	% of Net Assets	Number of Shares	Cost	Fair Value	% of Net Assets
Canadian Equities								
Oil & Gas Corporations								
ARC Resources Ltd.	**62,712**	**$ 1,310,881**	**$ 1,524,529**	**1.4**	93,712	$ 1,889,349	$ 2,341,863	1.5
Bonavista Energy Corp.	**93,325**	**1,883,430**	**1,378,410**	**1.3**	123,005	2,555,595	3,204,280	2.0
Canadian Natural Resources Ltd.	**90,000**	**3,415,868**	**2,576,700**	**2.4**	50,000	2,074,767	1,902,000	1.2
		6,610,179	**5,479,639**	**5.1**		6,519,711	7,448,143	4.7
Ongoing Business Trusts								
Copernican British Banks Income Fund	**366,400**	**320,427**	**586,240**	**0.5**	366,400	320,427	340,752	0.2
Power Financial Corp.	**53,900**	**1,601,506**	**1,466,080**	**1.4**	60,900	1,862,763	1,553,559	1.0
		1,921,933	**2,052,320**	**1.9**		2,183,190	1,894,311	1.2
Pipeline/Energy Investments								
Cenovus Energy Inc.	**70,000**	**1,996,978**	**2,330,300**	**2.2**	127,000	3,471,484	4,296,410	2.7
Enbridge Inc.	**55,400**	**1,389,171**	**2,382,200**	**2.2**	106,400	2,456,680	4,052,776	2.6
Encana Corp.	**96,000**	**2,668,866**	**1,881,600**	**1.8**	117,000	3,749,429	2,210,130	1.4
Innergex Renewable Energy Inc.	**120,000**	**1,302,913**	**1,237,200**	**1.2**	-	-	-	-
Inter Pipeline Fund	**87,525**	**1,228,229**	**2,055,087**	**1.9**	119,400	1,270,415	2,214,870	1.4
Keyera Corp.	**30,000**	**825,416**	**1,471,500**	**1.4**	45,000	993,618	2,239,200	1.4
Nexen Inc.	**-**	**-**	**-**	**-**	120,100	2,497,830	1,945,620	1.2
Pembina Pipeline Corp.	**48,000**	**939,966**	**1,365,120**	**1.3**	80,000	1,361,845	2,372,000	1.5
Suncor Energy Inc.	**71,000**	**2,404,020**	**2,322,410**	**2.2**	69,000	2,349,372	2,027,220	1.3
Superior Plus Corp.	**-**	**-**	**-**	**-**	137,600	1,791,965	787,072	0.5
Talisman Energy Inc.	**170,000**	**2,495,052**	**1,909,100**	**1.8**	120,000	2,055,260	1,557,600	1.0
Transcanada Corp.	**50,629**	**1,868,017**	**2,378,044**	**2.2**	86,629	3,085,398	3,854,990	2.4
Transcontinental Inc.	**-**	**-**	**-**	**-**	110,000	1,365,452	1,386,000	0.9
Veresen Inc.	**36,000**	**354,278**	**423,360**	**0.4**	131,000	1,289,180	2,002,990	1.3
		17,472,906	**19,755,921**	**18.6**		27,737,928	30,946,878	19.6

	As at December 31, 2012				As at December 31, 2011			
	Number of Shares	Cost	Fair Value	% of Net Assets	Number of Shares	Cost	Fair Value	% of Net Assets
Materials								
Cameco Corp.	**43,000**	**$ 1,034,418**	**$ 840,650**	**0.8**	50,000	$ 1,245,789	$ 918,500	0.6
Labrador Iron Ore Royalty Corp.	**28,000**	**565,320**	**960,960**	**0.9**	52,000	1,049,880	1,942,720	1.2
Potash Corp.	**44,000**	**1,666,984**	**1,776,720**	**1.7**	57,000	1,976,398	2,399,130	1.5
Genivar Inc.	**-**	**-**	**-**	**-**	79,500	2,178,475	2,091,645	1.3
		3,266,722	**3,578,330**	**3.4**		6,450,542	7,351,995	4.6
Telecommunications								
BCE Inc.	**45,330**	**1,764,102**	**1,931,058**	**1.8**	58,330	2,229,807	2,475,525	1.6
Cogeco Cable Inc.	**33,000**	**1,173,253**	**1,252,680**	**1.2**	59,000	2,097,633	3,022,570	1.9
Corus Entertainment Inc.	**62,000**	**1,192,251**	**1,522,720**	**1.4**	108,500	2,043,205	2,222,080	1.4
Rogers Communications Inc.	**48,000**	**1,700,344**	**2,166,720**	**2.0**	80,000	2,755,139	3,139,200	2.0
Shaw Communications Inc.	**70,700**	**1,490,921**	**1,612,667**	**1.5**	116,700	2,463,997	2,360,841	1.5
Telus Corp.	**12,710**	**691,541**	**820,939**	**0.8**	4,210	221,116	229,698	0.1
Thomson Reuters Corp.	**71,000**	**2,315,034**	**2,043,380**	**1.9**	99,000	3,398,580	2,691,810	1.7
		10,327,446	**11,350,164**	**10.6**		15,209,477	16,141,724	10.2
Financial Services								
Bank of Nova Scotia	**67,300**	**3,336,891**	**3,864,366**	**3.6**	109,300	5,271,645	5,548,068	3.5
Great-West Lifeco Inc.	**74,800**	**1,930,288**	**1,818,388**	**1.7**	113,800	3,009,088	2,313,554	1.5
Manulife Financial Corp.	**127,874**	**2,317,840**	**1,723,742**	**1.6**	230,690	4,397,902	2,498,373	1.6
Royal Bank of Canada	**73,000**	**4,043,567**	**4,367,590**	**4.1**	131,000	7,206,613	6,801,520	4.3
Toronto-Dominion Bank	**61,300**	**4,192,278**	**5,127,745**	**4.8**	89,300	5,722,352	6,809,125	4.3
		15,820,864	**16,901,831**	**15.8**		25,607,600	23,970,640	15.2
Consumer Goods & Services								
Canadian National Railway Co.	**26,000**	**1,775,493**	**2,348,580**	**2.2**	33,400	1,869,345	2,674,338	1.7
George Weston Ltd.	**14,000**	**919,880**	**988,540**	**0.9**	10,000	682,311	678,700	0.4
SNC-Lavalin Group Inc.	**66,000**	**3,074,719**	**2,659,800**	**2.5**	85,000	4,153,279	4,330,750	2.7
Loblaw Companies Ltd.	**-**	**-**	**-**	**-**	50,776	1,711,639	1,948,783	1.2
Metro Inc.	**45,000**	**2,311,568**	**2,846,250**	**2.7**	-	-	-	-
Shoppers Drug Mart Corp.	**33,000**	**1,303,928**	**1,409,430**	**1.3**	63,200	2,480,421	2,594,992	1.6
Tim Hortons Inc.	**21,000**	**823,564**	**1,024,590**	**1.0**	23,900	764,501	1,178,987	0.7
		10,209,152	**11,277,190**	**10.6**		11,661,496	13,406,550	8.3
Total Canadian Equities		**65,629,202**	**70,395,395**	**66.0**		95,369,944	101,160,241	63.8

	As at December 31, 2012				As at December 31, 2011			
	Number of Shares	Cost	Fair Value	% of Net Assets	Number of Shares	Cost	Fair Value	% of Net Assets
International Equities								
French Equities								
AXA, ADR	-	-	-	-	135,000	$ 2,806,881	$ 1,767,784	1.1
United Kingdom Equities								
BP PLC, ADR	**45,300**	**$ 2,418,734**	**$ 1,878,181**	**1.8**	57,300	3,308,470	2,492,529	1.6
HSBC Holdings PLC, ADR	**41,200**	**2,151,997**	**2,150,417**	**2.0**	44,200	2,590,252	1,711,153	1.1
National Grid PLC, ADR	**31,000**	**1,605,147**	**1,763,597**	**1.7**	65,400	3,386,343	3,234,156	2.0
Vodafone Group PLC, ADR	**54,700**	**1,316,101**	**1,365,432**	**1.3**	101,700	2,388,152	2,901,640	1.8
		7,491,979	**7,157,627**	**6.8**		11,673,217	10,339,478	6.5
U.S. Equities								
Automatic Data Processing Inc.	**27,000**	**1,234,556**	**1,532,382**	**1.4**	49,000	2,189,611	2,693,292	1.7
Colgate-Palmolive Co.	**15,000**	**1,214,680**	**1,561,656**	**1.5**	28,000	2,267,403	2,632,991	1.7
Emerson Electric Co.	**27,000**	**1,231,421**	**1,424,309**	**1.3**	44,000	1,986,760	2,087,372	1.3
Johnson & Johnson Inc.	**25,000**	**1,652,366**	**1,744,964**	**1.6**	40,600	2,700,880	2,709,899	1.7
Pepsico Inc.	**24,100**	**1,543,382**	**1,642,312**	**1.5**	36,100	2,307,712	2,438,580	1.5
Pfizer Inc.	**73,000**	**1,359,631**	**1,823,694**	**1.7**	129,900	2,348,841	2,862,337	1.8
Philip Morris International Inc.	**19,000**	**969,162**	**1,582,516**	**1.5**	39,000	1,989,332	3,115,784	2.0
Procter & Gamble Co.	**23,200**	**1,478,282**	**1,568,737**	**1.5**	37,200	2,356,679	2,525,007	1.6
Walgreen Co.	**45,000**	**1,496,849**	**1,659,185**	**1.6**	-	-	-	-
		12,180,329	**14,539,755**	**13.6**		18,147,218	21,065,262	13.3

STATEMENTS OF INVESTMENTS *(Continued)*

	As at December 31, 2012				As at December 31, 2011			
	Par Value	Cost	Fair Value	% of Net Assets	Par Value	Cost	Fair Value	% of Net Assets
U.S. Bonds								
Great-West Lifeco Inc., 5.691%, June 21, 2067	**$400,000**	**$ 409,941**	**$ 439,859**	**0.4**	$815,000	$ 835,254	$ 844,964	0.5
Molson Coors International Inc., 3.950%, October 06, 2017	**525,000**	**523,346**	**552,463**	**0.5**	1,000,000	996,850	1,029,548	0.7
		933,287	**992,322**	**0.9**		1,832,104	1,874,512	1.2
U.K. Bonds								
National Grid Electricity, 2.730%, September 20, 2017	**$109,000**	**$ 109,000**	**$ 109,963**	**0.1**	-	-	-	-
		109,000	**109,963**	**0.1**		-	-	-
Total International Bonds and Equities		**20,714,595**	**22,799,667**	**21.4**		34,459,420	35,047,036	22.1
Total Investments		**96,725,845**	**104,269,121**	**97.8**		146,322,424	153,340,134	96.7
Other Assets, Net of Liabilities			**2,356,136**	**2.2**			5,275,230	3.3
Total Net Assets			**$ 106,625,257**	**100.0**			$158,615,364	100.0

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. THE FUND

Establishment of the Fund

Citadel Income Fund (the "Fund) is the new name of the combined fund resulting from the merger on December 2, 2009 of Crown Hill Fund ("CHF") and Citadel Premium Income Fund ("Premium"), Citadel HYTES Fund ("Hytes"), Citadel S-1 Income Trust Fund ("Citadel S-1"), Citadel Stable S-1 Income Fund ("Stable") and Equal Weight Plus Fund ("Equal Weight") (collectively the "Previous Citadel Funds"). The Fund acquired the investment portfolios and other assets of the Previous Citadel Funds on December 2, 2009, but did not assume any liabilities of the Previous Citadel Funds. Since the merger was an acquisition, it was done on a taxable basis. The Previous Citadel Funds' unitholders received the following number of units of the Fund for each unit held prior to the merger: Premium unitholders received 1.1581 units; Hytes unitholders received 1.7545 units; Citadel S-1 unitholders received 1.8629 units; Stable unitholders received 1.0765 units; and Equal Weight unitholders received 0.8028 units.

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

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

Crown Hill Capital Corporation ("Crown Hill") was formerly the trustee and manager of the Fund. Effective January 16, 2013, Artemis Investment Management Limited ("Artemis") was appointed as the new trustee (the "Trustee") and manager (the "Manager") of the Fund.

Predecessor Funds

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

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

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

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

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

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

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

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

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

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

2. INVESTMENT OBJECTIVES OF THE FUND

The investment objectives of the Fund are:

(i) to provide unitholders with a stable stream of monthly distributions; and

(ii) to preserve and potentially enhance the net asset value of the Fund.

3. INCOME TAXES

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash and cash equivalents

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

(b) Valuation of investments

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

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

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

(c) Investment transactions and income recognition

i. Investment transactions are accounted for on the trade date.

ii. Interest income and expenses are recorded on the accrual basis.

iii. Dividend income is recorded on the ex-dividend date.

iv. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

(d) Foreign currency translation

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

(e) Distributions

Distributions to unitholders are recorded by the Fund when declared.

(f) Transaction costs

Transaction costs are expensed as incurred.

(g) Application of CICA Handbook Section 3855

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

As at December 31, 2012	Net Assets	Net Assets per Unit
Transactional Net Assets	$ 106,811,791	$ 4.55
Difference as a result of Section 3855	(186,534)	(0.01)
Net Assets	$ 106,625,257	$ 4.54

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

(h) Securities lending

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

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

As at December 31, 2012, the Fund had an aggregate value of securities on loan of $12,203,811 (2011 - $12,895,587) and corresponding aggregate value of collateral for loan of $12,876,704 (2011 - $13,589,837).

(i) Future accounting changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning January 1, 2014 and issue its first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The 2014 semi-annual and annual financial statements will include 2013 comparative financial information and an opening statement of net assets as at January 1, 2013, also prepared in accordance with IFRS.

The Manager has begun to develop a transition plan to changeover to IFRS. Currently, the expected impact to the financial statements based on the Manager's assessment of the differences between current Canadian GAAP and IFRS are as follows: i) IFRS 13 *Fair Value Measurement* permits the use of mid-market prices 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, net assets for financial reporting purposes may be impacted and could align with the transactional net assets used to price unitholder transactions, eliminating the need for a reconciliation; ii) Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As a result, unitholders' equity may be required to be presented as a liability in the statement of net assets with related distributions presented as an expense in the statement of operations. Alternatively, equity presentation would require additional disclosure of the components of equity; iii) IFRS requires the presentation of a statement of cash flows, including comparatives for 2013; iv) Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

5. LOAN RECEIVABLE

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

On December 2, 2009, five of the funds in the Citadel Group of Funds merged with the Fund (see Note 1).

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

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

For the year ended December 31, 2012, the principal on the Note was reduced by $2,275,175 and interest payments of $27,304 were received. On May 1, 2012, the outstanding balance on the Note was nil, and it was discharged. See Note 9, Related Party Transactions for details on repayment of the Note.

6. INVESTMENT PORTFOLIO

The following tables summarize movements in investments during the years ended December 31, 2012 and 2011:

Investments at cost

As at December 31	**2012**	2011
Investments at cost – beginning of year	**$ 146,322,424**	$ 161,679,518
Investments made during the year	**61,700,341**	11,187,502
Dispositions during the year, at cost	**(111,296,920)**	(26,544,596)
Investments at cost – end of year	**$ 96,725,845**	$ 146,322,424

Net change in unrealized appreciation (depreciation) of investments

As at December 31	**2012**	2011
Investments at fair value – end of year	**$ 104,269,121**	$ 153,340,134
Investments at cost – end of year	**96,725,845**	146,322,424
Unrealized appreciation of investments – end of year	**7,543,276**	7,017,710
Unrealized appreciation of investments – beginning of year	**7,017,710**	12,543,366
Net change in unrealized appreciation (depreciation) of investments	**$ 525,566**	$ (5,525,656)

Net realized gain on sale of investments

As at December 31	**2012**	2011
Proceeds of investments sold	**$ 112,860,369**	$ 26,742,789
Cost of investments sold	**(109,021,745)**	(22,948,870)
Net realized gain on sale of investments	**$ 3,838,624**	$ 3,793,919

7. UNITS ISSUED AND OUTSTANDING

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

The following unit transactions took place during the years ended December 31, 2012 and 2011:

Units Issued and Outstanding

For the years ended December 31	**2012**		2011	
	Number	**Amount**	**Number**	**Amount**
Trust units – beginning of year	**29,912,208**	**$ 161,498,090**	32,163,257	$ 177,006,988
Issued under DRIP	**34,284**	**134,543**	5,896	23,494
Warrant exercised (CTF.WT.A)	**23,218,549**	**90,552,341**	1,373,020	5,354,778
Warrant exercised (CTF.WT)	**-**	**-**	1,273	6,569
Units redeemed - monthly redemptions	**(96,091)**	**(337,277)**	(1,838)	(8,367)
Units redeemed - partial redemption (March 2012)	**(5,000,000)**	**(23,699,671)**	-	-
Units redeemed - special redemption (August 2012)	**(21,330,664)**	**(96,992,273)**	-	-
Units repurchased and cancelled under NCIB	**(3,253,300)**	**(15,339,245)**	(3,629,400)	(20,885,372)
Trust units – end of year	**23,484,986**	**$ 115,816,508**	29,912,208	$ 161,498,090

Warrants Issued and Outstanding

For the years ended December 31	**2012**	2011
Balance of warrants outstanding – beginning of year	**27,623,999**	32,466,665
CTF.WT		
Warrants exercised during the year	**-**	(1,273)
Warrants expired during the year	**-**	(32,465,392)
CTF.WT.A		
Warrants issued during the year	**-**	28,997,019
Warrants exercised during the year	**(23,218,549)**	(1,373,020)
Warrants expired during the year	**(4,405,450)**	-
Balance of warrants outstanding - end of year	**-**	27,623,999

On September 27, 2011, the Fund announced that it had filed a final short form prospectus relating to its warrant offering. Each unitholder of record on October 7, 2011 received one new warrant for each unit held. A total of 28,997,019 warrants were issued. Each warrant entitled the unitholder to purchase a new unit upon payment of the subscription price of $4.00. The Fund paid a fee at the time of exercise equal to $0.10 per warrant to the broker. Warrants could be exercised at any time before the earlier of i) March 8, 2012, or ii) such date which is 20 business days from the date the embedded call feature in the warrants is exercised by the Fund in accordance with the terms of the warrant offering. On March 9, 2012, upon completion of the warrant offering program, a total of 24,591,569 warrants were exercised for net proceeds of $95,907,119 in 2012 and 2011 combined after expenses totalling $2,459,157.

For the period January 1, 2012 to December 31, 2012, the Fund repurchased 3,253,300 units for cancellation at an average cost of $4.71 per unit under the normal course issuer bid (Note 13).

Through the monthly redemption feature offered during 2012, 96,091 units were redeemed for a total cost of $337,277. Through the partial redemption feature offered in March 2012 (Note 14), 5,000,000 units were redeemed for a total cost of $23,699,671. Through the special redemption feature offered in August 2012 (Note 16), 21,330,664 units were redeemed for a total cost of $96,992,273. Total costs include amounts paid to the unitholders, fees paid to Crown Hill and loan repayment amounts as detailed in the Statements of Changes in Net Assets.

8. UNITHOLDERS' EQUITY

Unitholders' equity is comprised of unitholders' capital and retained earnings (deficit). The changes in unitholders' capital and retained earnings (deficit) during the years ended December 31, 2012 and 2011 are summarized as follows:

For the years ended December 31	2012	2011
Unitholders' equity — beginning of year	$ 161,498,090	$ 177,006,988
Redemption of units	(136,368,466)	(20,893,739)
Subscription of units	90,686,884	5,384,841
Unitholders' equity — end of year	$ 115,816,508	$ 161,498,090

For the years ended December 31	2012	2011
Retained earnings (deficit) — beginning of year	$ (2,882,726)	$ 7,662,865
Results from operations for the year	6,196,681	305,605
Distributions to unitholders	(12,505,206)	(10,851,196)
Deficit — end of year	$ (9,191,251)	$ (2,882,726)

For the years ended December 31	2012	2011
Unitholders' equity — end of year	$ 115,816,508	$ 161,498,090
Deficit — end of year	(9,191,251)	(2,882,726)
Unitholders' equity — end of year	$ 106,625,257	$ 158,615,364

9. RELATED PARTY TRANSACTIONS

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

The Manager is entitled to a management fee of 1.00% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2012, management fees totaled $1,818,530 (December 31, 2011 - $1,883,928), of which $90,846 was payable at December 31, 2012 (December 31, 2011 - $128,308).

Legal expenses for the year ended December 31, 2012 totaled $351,087 (December 31, 2011 - $962,110). This includes $907,036 (December 31, 2011 - $288,203) in legal fees incurred on behalf of Crown Hill and a director of Crown Hill in accordance with an indemnification provision contained in the Declaration of Trust. The Fund also maintains insurance for the benefit of Crown Hill and the directors of Crown Hill against these types of expenses. For the legal fees incurred, the Fund has been reimbursed by the insurer for the amount of $888,275. The Fund will continue seeking reimbursement from the insurer for the legal fees incurred.

Administrative expenses for the year ended December 31, 2012 totaled $494,876 (December 31, 2011 - $482,148). As part of these expenses, the Fund paid a general overhead cost of $35,000 per month plus applicable taxes in 2012 (2011 - $30,000 per month) to cover related administrative salaries, employee benefits, general overhead, and office supplies. See Note 17 - subsequent event.

On December 18, 2009, the Fund sold its interest in the units of CH Fund Administration LP to Crown Hill. In connection with this purchase, the Fund received a promissory note (the "Note") from Crown Hill in the amount of $9,955,000. On November 19, 2010, $213,904 was added to the outstanding balance on the Note. Under the Note, the principal shall be reduced by the following three mechanisms:

(i) retraction fee equal to costs associated with the retraction plus an amount equal to the departing unitholders' proportionate share of the Note; (ii) reduction in the Note by an amount equal to the difference between the amount the Fund paid for the units under the NCIB and the NAV of the unit at the time of repurchase, multiplied by the number of units; and (iii) at least 90% of the tax-adjusted amount of the management fee less any reasonable expenses incurred relating to managing the Fund and costs associated with the Note, as well as recourse to the other assets of Crown Hill.

The balance of the Note at year end was $nil (December 31, 2011 - $2,275,175). During 2012 the Note was reduced under (i) by $149,671 (December 31, 2011 - $nil and since inception a total of $2,243,413); under (ii) by $2,125,504 (December 31, 2011 - $2,677,239 and since inception a total of $4,980,491); and under (iii) by $nil (December 31, 2011 - $1,400,000 and since inception a total of $2,945,000). During 2012, interest payments of $27,304 (December 31, 2011 - $218,176) were received.

For repurchases made subsequent to the amended and restated Declaration of Trust as of August 9, 2012, the Manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the year ended December 31, 2012, redemption fees totaled $5,651,317 of which $45,482 was payable as at December 31, 2012. See Note 17 for details of the termination fee paid to Crown Hill.

10. INVESTMENT MANAGEMENT FEES

Jarislowsky Fraser Ltd. is the investment manager of the Fund and is entitled to an investment management fee of 0.33% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2012, investment management fees totaled $598,246 (December 31, 2011 – $577,431), of which $29,979 was payable as at December 31, 2012 (December 31, 2011 - $41,603).

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial Instruments

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurement based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows: (i) Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets; (ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; (iii) Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

The following tables present as at December 31, 2012 and 2011, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value:

Financial assets — trading investments	**Level 1**	**Level 2**	**Level 3**	**December 31, 2012 Total Fair Value**
Equities	**$ 92,092,777**	**$ -**	**$ -**	**$ 92,092,777**
Bonds	**-**	**12,176,344**	**-**	**12,176,344**
Total	**$ 92,092,777**	**$ 12,176,344**	**$ -**	**$ 104,269,121**

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

Market Risk

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

The most significant exposure to market risk is from equity securities. As at December 31, 2012, had the prices on the respective stock exchanges for these securities raised (lowered) by 10%, with all other variables held constant, net assets would have increased (decreased) by approximately $10,427,000 (approximately 9.8% of net assets) (2011 - $15,334,000; approximately 9.7% of net assets). In practice, the actual results may differ and the difference could be material.

Foreign Currency Risk

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

The Fund invests approximately 12.6% (2011 - 13.0%) of the investment portfolio in U.S. currency. At December 31, 2012, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets would have increased (decreased) by approximately $671,000 (approximately 0.6% of net assets) (2011 - $1,033,000; approximately 0.7% of the investment portfolio). In practice, the actual results may differ and the difference could be material.

Interest Rate Risk

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

The Fund invests approximately 86.3% of the investment portfolio in equity securities (2011 - 84.8%). Cash and short-term investments earn minimal interest. The Fund also invests in bond securities which subject the Fund to interest rate risk. As at December 31, 2012, if interest rates increased by 1% with all other variables held constant, the fair value of the securities as shown on the Fund's Statements of Investments would have decreased by approximately $900,498 (2011 - $1,427,063).

Credit Risk

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

The Fund invests approximately 86.3% of the investment portfolio in equity securities (2011 - 84.8%). Cash and short-term investments are held by the custodian. As at December 31, 2012, the Fund has a $12,176,344 exposure to credit risk (2011 - $21,282,544).

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 86.3% of the Fund's assets in investments that are traded in an active market and can be readily disposed (2011 - 84.8%).

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at December 31, 2012, the Fund's liquidity risk is considered minimal.

12. REGULATORY ISSUES

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

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

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

On May 31, 2011, Crown Hill and the Funds sought a hearing and review (the "Hearing and Review") of the Director's decision (pursuant to subsection 8(2) of the Securities Act) before the Ontario Securities Commission (the "Commission"). The application was heard on July 12, 13, and 14, 2011. Three business days prior to the Hearing and Review, July 7, 2011, Staff issued a Notice of Hearing and Statement of Allegations against Crown Hill and its President. It is alleged in the Statement of Allegations that the Citadel Acquisition was undertaken primarily in the interests of Crown Hill rather than the Fund, contrary to s.116 of the Securities Act. This was the same submission made by Staff at the OTBH and then at the Hearing and Review. In addition, Staff allege that the acquisition of the management contracts for the Fairway Diversified Income and Growth Trust and subsequent merger in January 2009 was also primarily in the interests of Crown Hill. Finally, Staff allege that certain amendments to the Declaration of Trust of MACCs Sustainable Yield Trust (the predecessor trust to Crown Hill Fund) to increase the management fee, grant broader powers to Crown Hill and to adopt less restrictive investment requirements, were also undertaken primarily to benefit Crown Hill.

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

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

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

On August 8, 2011, Crown Hill and its President attended before the Commission and requested the earliest available hearing dates to address the allegations made by Staff in the enforcement proceeding. A hearing before the Commission commenced in May 2012 and, due to various scheduling issues, concluded in September 2012. Currently, Crown Hill is awaiting a decision by the Commission.

13. NORMAL COURSE ISSUER BID PROGRAM

Effective February 6, 2013, the Fund renewed its NCIB program to permit the Fund to purchase up to 2,248,541 of the outstanding units on the TSX from time to time. The Fund may purchase units in the market for cancellation if the Manager determines that such purchases provide liquidity to unitholders. Under the NCIB program, the Fund may purchase up to 2,248,541 units, representing approximately 10% of the public float of 22,248,417 units. Additionally, the Fund may not purchase more than 449,708 units in any 30-day period, representing 2% of the issued and outstanding units. If these purchases are made, they will be made in accordance with applicable regulations over a twelve-month period ending February 5, 2014. Units purchased will be cancelled.

14. PARTIAL REDEMPTION FEATURE

On February 14, 2012, the Fund announced that up to 5,000,000 units of the Fund could be redeemed on March 29, 2012 for an amount per unit equal to the net asset value retraction price ("NAV Retraction Price") as of March 23, 2012. The NAV Retraction Price was an amount equal to 100% of the net asset value per unit less any retraction costs. The retraction costs were 0.85% of the net asset value per unit. Beneficial holders of units had to submit their request to redeem units by no later than March 20, 2012. Requests for redemptions were oversubscribed and all 5,000,000 units were redeemed. The units were redeemed on a pro rata basis at a redemption price of $4.71 per unit.

15. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS

The brokerage commissions fees paid for the year ended December 31, 2012 were $93,724 (December 31, 2011 - $30,118). The commissions were incurred solely for order execution services. The Fund does not pay any soft dollar commissions.

16. UNITHOLDER MEETINGS

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

In the special meeting on August 7, 2012, unitholders voted in favour of the extraordinary resolution. On August 17, 2012, the Fund's special retraction price was determined to be $4.29 per unit. On August 22, 2012, 21,330,664 units were redeemed at the Fund's special retraction price. Crown Hill received a fee payment of $5,483,724 on the special retraction.

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

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

17. SUBSEQUENT EVENT

Change in Manager

On January 15, 2013, Crown Hill announced that it had tendered its resignation as manager. Such resignation was effective upon the appointment of Artemis as the new manager of the Fund, which subsequently took place on January 16, 2013. A termination payment of $6,047,697, which was equal to the product of the net asset value and five percent plus applicable taxes, was paid to Crown Hill. In addition, expenses totalling $949,200 resulting from the resignation such as costs incurred to terminate employees, office and equipment leases and agreements for services were paid to Crown Hill.

18. CAPITAL MANAGEMENT

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

19. COMPARATIVE NUMBERS

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

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