Artemis Investment Management

CITADEL INCOME FUND

ANNUAL REPORT

DECEMBER 31, 2014

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ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

This annual management report of fund performance for Citadel Income Fund (the "Fund") contains financial highlights but does not contain the complete annual financial statements of the Fund. You may obtain a copy of the annual financial statements, at no cost, by calling 416-934-7455, or by sending a request to Investor Relations, Artemis Investment Management Limited, 1325 Lawrence Avenue E., Suite 200, Toronto, ON, M3A 1C6, Canada or by visiting our website at www.artemisfunds.ca or SEDAR at www.sedar.com. Holders of units ("Unitholders") may also contact us using one of these methods to request a copy of the Fund's interim financial report, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

THE FUND

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

INVESTMENT OBJECTIVES AND 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 Portfolio Advisor seeks to achieve these objectives by investing in a diversified portfolio ("Portfolio") of securities (the "Portfolio Securities") consisting of: (i) equity securities of principally larger capitalization companies traded on a recognized stock exchange; (ii) debt securities, with a minimum of 80% of debt security investments in investment grade debt rated BBB or higher; and (iii) income funds, each of which has, at the date of investment by the Fund, a market capitalization, excluding control positions, of $400 million.

RISKS

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

There were no changes in the period ended December 31, 2014 that materially affected the risks associated with an investment in Units of the Fund. For a list of risks, see the Fund's annual information form dated March 26, 2014 on the Fund's SEDAR profile at www.sedar.com.

RESULTS OF OPERATIONS

The NAV of the Fund went from $113.55 million to $102.26 million from January 1, 2014 to December 31, 2014. Total revenue per Unit for 2014 was $0.173, compared to $0.154 during 2013. Operations resulted in an increase in NAV per Unit of $0.115 compared to an increase of $0.502 for 2013.

Total administrative expenses for the year ended December 31, 2014 were $0.022 per Unit compared to $0.318 for 2013. The decrease in total administrative expenses for the year ended December 31, 2014 compared to 2013 is primarily attributable to certain non-recurring expenses in 2013 that were incurred by the Fund as a result of Crown Hill Capital Corporation ("Crown Hill") resigning as trustee and manager of the Fund. Further information on this can be found in the discussion of "Related Party Transactions." Management fees were approximately the same for the year at $0.050 per Unit compared to 2013 ($0.050) as the Fund's average NAV was approximately the same during both years. Investment management fees were also approximately the same for the year at $0.017 per Unit compared to 2013 ($0.019). Excluding the expenses discussed above, all other expenses of the Fund for the year ended December 31, 2014 were $0.017 per Unit (2013 – $0.033).

The Portfolio Advisor continued to reduce the Fund's bond exposure over the second half of 2014 to realize gains on positions as well as reduce the overall interest rate risk of the Fund's Portfolio. The cash from the sale of bond holdings peaked during the summer and was then reduced due to additional equity investments made by the Portfolio Advisor throughout the rest of the year.

The NAV per Unit, after distributions to Unitholders, decreased 0.88% for the year ended December 31, 2014. During 2014, the Fund paid total cash distributions of $0.11 per Unit and total Unit distributions of $0.03 per Unit.

There were no unusual trends in redemptions for the year ended December 31, 2014, with 2,507,431 Units redeemed in the year.

TRADING PREMIUM/DISCOUNT

In 2014, the Fund traded at an average discount to its NAV per Unit of 26.12%, compared to an average discount of 13.53% for 2013.

RECENT DEVELOPMENTS

Redemptions & Retractions

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). For 2014 that number was 2,503,792 Units. In 2014, 2,503,792 Units were redeemed at a price of $4.3716 per Unit.

Transition to International Financial Reporting Standards ("IFRS")

These financial statements have been prepared in compliance with IFRS applicable to the preparation of financial statements, including IFRS 1, First-time Adoption of International Financial Reporting Standards. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CICA Handbook ("Canadian GAAP"). The comparative information has been restated from Canadian GAAP to comply with IFRS. The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout the periods presented, as if these policies had always been in effect. Note 14 of the financial statements discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

RELATED PARTY TRANSACTIONS

The Manager is entitled to receive a management fee of 1.00% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2014, management fees totaled $1,261,943 (2013 – $1,152,264), of which $106,114 was payable as at December 31, 2014 (2013 – $88,637). The Fund is responsible for all expenses incurred on its behalf. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Portfolio Advisor receives a fee of 0.33% per annum of the average NAV of the Fund, plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services. For the year ended December 31, 2014, investment management fees totaled $419,149 (2013 – $437,338), of which $35,018 was payable at December 31, 2014 (2013 – $ 29,385).

Administrative Expenses for the year ended December 31, 2014 totaled $548,868 (2013 – $7,394,561). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis receives $35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies. In addition to recurring administrative expenses of the Fund, certain non-recurring expenses in 2013 were a result of Crown Hill announcing its resignation as trustee and manager of the Fund as of January 15, 2013. A termination payment of $5.35 million, plus applicable taxes, was paid to Crown Hill. In addition, expenses totaling $0.84 million, plus applicable taxes, were paid to Crown Hill.

The Manager is entitled to receive a fee of 5% of the NAV per Unit redeemed or repurchased plus applicable taxes. For the year ended December 31, 2014, redemption fees totaled $656,423 (2013 – $384,637) of which nil was payable as at December 31, 2014 (2013 – nil).

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.

The Fund's Net Assets per Unit (1)

For the Periods Ended	31-Dec-14	31-Dec-13	31-Dec-12	31-Dec-11	31-Dec-10
Net Assets per Unit, Beginning of Year	**$ 4.53**	$ 4.54	$ 5.30	$ 5.74	$ 5.62
Increase From Operations:					
Total Revenue	**0.17**	0.15	0.16	0.21	0.27
Total Expenses	**(0.12)**	(0.42)	(0.10)	(0.14)	(0.12)
Realized Gains (Losses)	**0.27**	0.20	0.10	0.12	0.29
Unrealized Gains (Losses)	**(0.21)**	0.58	0.02	(0.18)	0.14
Total Increase from Operations (2)	**$ 0.12**	$ 0.51	$ 0.21	$ 0.01	$ 0.58
Distributions:					
From Net Investment Income	**–**				
From Dividends	**–**				
From Capital Gains	**0.03**				
Return of Capital	**0.11**	0.36	0.36	0.36	0.48
Total Distributions per Unit (3)	**0.14**	0.36	0.36	0.36	0.48
Net Assets per Unit, End of Year	**$ 4.49**	$ 4.53	$ 4.54	$ 5.30	$ 5.74

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

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

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

RATIOS AND SUPPLEMENTAL DATA

For the Periods Ended	31-Dec-14	31-Dec-13	31-Dec-12	31-Dec-11	31-Dec-10
Total Net Asset Value ($ 000's) (1)	**$ 102,250**	$ 113,553	$ 106,625	$ 158,615	$ 184,670
Number of Units Outstanding (000's) (1)	**22,792**	25,042	23,485	29,912	32,163
Management Expense Ratio (2)	**2.25%**	9.27%	3.58%	4.21%	2.08%
Trading Expense Ratio (3)	**0.05%**	0.12%	0.06%	0.02%	0.08%
Portfolio Turnover Ratio (4)	**10.49%**	32.45%	38.33%	6.44%	48.91%
Net Asset Value Per Unit	**$ 4.49**	$ 4.53	$ 4.54	$ 5.30	$ 5.74
Closing Market Price	**$ 3.28**	$ 3.74	$ 4.02	$ 3.88	$ 5.21

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

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

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

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

MANAGEMENT FEES

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

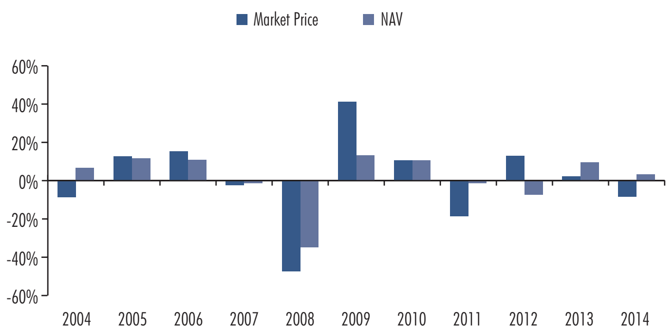
PAST PERFORMANCE

The Fund's performance numbers represent the annual compound total returns over the period from inception in June 2004 to December 31, 2014 (except for returns of less than one year which are compounded total returns). Total returns are based upon both the Fund's change in market price or net assets per unit plus the reinvestment of all distributions in additional Units of the Fund on the reinvestment dates for the year.

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

The total return of the Fund after distributions for the year ended December 31, 2014 was 3.42% measured in terms of its NAV. The total return of the market price per Unit of the Fund for the year ended December 31, 2014 was negative 8.49%.

Year by Year Returns



ANNUAL COMPOUND RETURNS

The following table presents the annual compound returns for Citadel Income Fund based on market price and net assets per Unit for the years indicated to December 31, 2014.

	1-Year	3-Year	5-Year	Since Inception
Citadel Income Fund (market price)	(8.49)%	3.61%	0.00%	(1.40)%
Citadel Income Fund (net assets)	3.42 %	0.58%	2.12%	0.63 %
iShares S&P/TSX 60 Index Fund	11.72 %	10.48%	6.82%	8.43 %
Composite Benchmark (1)	9.88 %	9.57%	7.11%	7.44 %

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

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2014

Total Net Assets: $ 102,256,092

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

Portfolio by Sector	**% of Total Net Assets**
Canadian Equities	
Pipeline/Energy Investments	11.90%
Financial Services	28.10%
Consumer Goods & Services	4.60%
Telecommunications	8.90%
Oil & Gas Corporations	4.60%
Materials	9.50%
Retail	0.70%
Total Canadian Equities	68.30%
Canadian Bonds	3.40%
International Bonds (U.S.)	0.40%
International Equities (U.S., U.K., France)	21.50%
Other Assets, Net of Liabilities	6.40%
Total Net Assets	100.00%

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

As at December 31, 2014

Toronto-Dominion Bank	6.40%
Other Assets, Net of Liabilities	6.40%
Royal Bank of Canada	6.10%
Bank of Nova Scotia	4.80%
Canadian Imperial Bank of Commerce	3.90%
Thomson Reuters Corp.	3.40%
Canadian National Railway Co.	3.40%
Manulife Financial Corp.	2.70%
Rio Tinto PLC	2.70%
Coach Inc.	2.50%
Canadian Imperial Bank of Commerce, 1.750%	2.40%
BCE Inc.	2.40%
Royal Dutch Shell PLC, ADR	2.40%
Canadian Natural Resources Ltd.	2.30%
Pfizer Inc.	2.20%
HudBay Minerals Inc.	2.10%
Great-West Lifeco Inc.	2.00%
HSBC Holdings PLC, ADR	2.00%
Keyera Corp.	1.90%
Inter Pipeline Ltd.	1.80%
Enbridge Inc.	1.70%
Major Drilling Group International Inc.	1.70%
Rogers Communications Inc.	1.70%
Teck Resources Ltd.	1.60%
Total SA, ADR	1.60%
% of Total Net Assets	**72.10%**

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Financial Statements of

CITADEL INCOME FUND

Years ended December 31, 2014 and 2013

Artemis
Investment Management

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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 financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years ended December 31, 2014 and December 31, 2013, and notes, comprising 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 International Financial Reporting Standards, 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 our 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, we 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, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 17, 2015
Toronto, Canada

STATEMENTS OF FINANCIAL POSITION

December 31, 2014, December 31, 2013 and January 1, 2013

	December 31, 2014	December 31, 2013	January 1, 2013
		(note 14)	(note 14)
Assets			
Financial assets at fair value through profit or loss (note 4)	$ 95,680,710	$ 111,971,585	$ 104,455,655
Cash	6,545,576	1,947,865	2,813,182
Accrued interest	14,746	36,374	108,635
Dividends receivable	281,286	382,456	385,971
Prepaid expenses	–	–	163,758
Other receivables	428,354	261,681	–
	102,950,672	114,599,961	107,927,201
Liabilities			
Distributions payable	227,919	751,249	704,549
Management fees payable (note 8)	141,132	88,637	90,846
Accounts payable and accrued liabilities (note 8)	325,529	206,984	320,015
	694,580	1,046,870	1,115,410
Net assets attributable to holders of redeemable units	$ 102,256,092	$ 113,553,091	$ 106,811,791
Number of redeemable units outstanding (note 7)	22,791,956	25,041,625	23,484,986
Net assets attributable to holders of redeemable units per unit	$ 4.49	$ 4.53	$ 4.55

See accompanying notes to financial statements.

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

(signed)
Conor Bill
Chief Executive Officer

(signed)
Trevor Maunder
Chief Financial Officer

STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2014 and 2013

	2014	2013
		(note 14)
Income:		
Dividends	$ 3,730,075	$ 3,200,861
Interest income for distribution purposes	169,358	341,043
Foreign exchange gain	447,218	29,895
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on sale of investments	6,677,376	4,574,595
Change in unrealized appreciation (depreciation) on investments	(5,214,048)	13,371,794
	5,809,979	21,518,188
Expenses:		
Management fees (note 8)	1,261,943	1,152,264
Investment management fees (note 8)	419,149	437,338
Administrative (note 8)	548,868	7,394,561
Legal fees	36,000	123,713
Regulatory and listing	80,000	121,695
Unitholder servicing	132,800	120,286
Custody, valuation and transfer fees	47,200	93,858
Audit and review fees	65,000	46,137
Independent review committee fees	20,000	72,755
Portfolio transaction costs (note 11)	57,141	121,000
Board fees	–	69,909
	2,668,101	9,753,516
Operating profit before taxes	3,141,878	11,764,672
Withholding taxes	(252,480)	(119,119)
Income tax recovery	–	24,473
Increase in net assets attributable to holders of redeemable units from operations	$ 2,889,398	$ 11,670,026
Weighted average number of units outstanding	25,053,460	23,240,035
Increase in net assets attributable to holders of redeemable units from operations per unit (1)	$ 0.12	$ 0.50

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

See accompanying notes to financial statements.

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

Years ended December 31, 2014 and 2013

	2014	2013
		(note 14)
Net assets attributable to holders of redeemable units, beginning of year	$ 113,553,091	$ 106,811,791
Increase in net assets attributable to holders of redeemable units from operations	2,889,398	11,670,026
Redeemable unit transactions (note 7):		
Proceeds from exercise of warrants, net of expenses	–	14,478,556
Reinvested distributions	907,265	151,482
Units repurchased and canceled under the normal course issuer bid	–	(8,476)
Redemption of redeemable units	(11,612,495)	(11,151,811)
	(10,705,230)	3,469,751
Distributions to holders of redeemable units:		
Return to holders of redeemable units	(3,481,167)	(8,398,477)
Net increase (decrease) in net assets attributable to holders of redeemable units for the year	(11,296,999)	6,741,300
Net assets attributable to holders of redeemable units, end of year	$ 102,256,092	$ 113,553,091
Distributions per unit	$ 0.14	$ 0.36

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
	(note 14)	(note 14)
Cash flows from operating activities:		
Increase in net assets attributable to holders of redeemable units from operations	$ 2,889,398	$ 11,670,026
Adjustments for:		
Net realized gain on sale of investments	(6,677,376)	(4,574,595)
Portfolio transaction costs	57,141	121,000
Foreign exchange gain on cash	(447,218)	(29,895)
Change in unrealized depreciation (appreciation) in value of investments	5,214,048	(13,371,794)
Purchases of investments	(12,175,163)	(32,225,804)
Proceeds from sale of investments	29,872,225	42,535,263
Decrease in dividends and interest receivable	122,798	75,776
Increase in other receivables and prepaid expenses	(166,673)	(97,923)
Increase (decrease) in management fees payable	52,495	(2,209)
Increase (decrease) in accounts payable and accrued liabilities	118,545	(113,031)
	18,860,220	3,986,814
Cash flows used in financing activities:		
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,097,232)	(8,200,295)
Proceeds from redeemable units issued	–	14,478,556
Units repurchased and canceled under the normal course issuer bid	–	(8,476)
Amounts paid for redeemable units redeemed	(11,612,495)	(11,151,811)
	(14,709,727)	(4,882,026)
Foreign exchange gain on cash	447,218	29,895
Net increase (decrease) in cash	4,597,711	(865,317)
Cash, beginning of year	1,947,865	2,813,182
Cash, end of year	$ 6,545,576	$ 1,947,865
Supplemental information:		
Dividends received, net of withholding taxes	$ 3,583,505	$ 3,087,627
Interest received, net of withholding taxes	195,726	410,934

See accompanying notes to financial statements.

December 31, 2014

Number of shares / par value	Investments owned	Average cost	Fair value	% of net assets
	CANADIAN BONDS			
250,000	Bell Canada, 4.400%, 03/16/2018	$ 249,790	$ 267,554	0.3
2,500,000	Canadian Imperial Bank of Commerce, 1.750%, 06/01/2016	2,471,500	2,505,407	2.4
150,000	Enbridge Inc., 4.770%, 09/02/2019	154,131	164,782	0.2
130,000	Royal Bank of Canada, 2.980%, 05/07/2019	132,295	134,827	0.1
350,000	TELUS Corporation, 5.050%, 12/04/2019	356,015	392,030	0.4
	TOTAL CANADIAN BONDS	3,363,731	3,464,600	3.4
	CANADIAN EQUITIES			
	Oil and gas corporations:			
62,712	ARC Resources Ltd.	1,310,881	1,577,834	1.5
77,856	Bonavista Energy Corp.	1,557,000	568,349	0.6
66,895	Canadian Natural Resources Ltd.	2,538,939	2,402,868	2.3
200,000	Lightstream Resources Ltd.	1,479,550	238,000	0.2
		6,886,370	4,787,051	4.6
	Integrated financial services:			
34,075	Power Financial Corp.	1,012,455	1,232,834	1.2
	Pipeline/Energy investments:			
54,945	Cenovus Energy Inc.	1,567,485	1,317,032	1.3
30,000	Enbridge Inc.	752,258	1,792,200	1.7
50,000	Inter Pipeline Ltd.	681,565	1,797,000	1.8
24,000	Keyera Corp.	660,333	1,945,680	1.9
30,000	Pembina Pipeline Corp.	587,479	1,270,200	1.2
40,435	Suncor Energy Inc.	1,369,106	1,492,052	1.5
27,000	Transcanada Corp.	996,197	1,541,700	1.5
203,600	Uranium Participation Corp.	1,034,288	1,048,540	1.0
		7,648,711	12,204,404	11.9
	Materials:			
80,000	Barrick Gold Corp.	1,442,351	1,001,600	1.0
33,130	Cameco Corp.	796,983	631,127	0.6
445,750	Capstone Mining Corp.	1,224,208	904,873	0.9
53,000	Goldcorp Inc.	1,434,804	1,140,030	1.1
209,235	HudBay Minerals Inc.	2,447,045	2,117,458	2.1

December 31, 2014

Number of shares / par value	Investments owned	Average cost	Fair value	% of net assets
302,800	Major Drilling Group International Inc.	2,268,018	1,728,988	1.7
180,100	Sherritt International Corp.	645,893	540,300	0.5
100,000	Teck Resources Ltd.	2,587,080	1,588,000	1.6
		12,846,382	9,652,376	9.5
	Telecommunications:			
45,550	BCE Inc.	1,798,495	2,426,904	2.4
39,470	Rogers Communications Inc.	1,398,179	1,782,860	1.7
33,920	TELUS Corp.	958,334	1,420,909	1.4
74,220	Thomson Reuters Corp.	2,415,158	3,478,691	3.4
		6,570,166	9,109,364	8.9
	Financial services:			
73,590	Bank of Nova Scotia	3,732,162	4,879,753	4.8
40,000	Canadian Imperial Bank of Commerce	3,069,388	3,993,600	3.9
39,850	Dream Office Real Estate Investment Trust	1,138,075	1,002,228	1.0
59,920	Great-West Lifeco Inc.	1,546,295	2,012,713	2.0
122,528	Manulife Financial Corp.	2,217,639	2,717,670	2.7
77,850	Royal Bank of Canada	4,352,592	6,246,684	6.1
119,000	Toronto-Dominion Bank	4,143,244	6,605,690	6.4
		20,199,395	27,458,338	26.9
	Consumer goods and services:			
43,430	Canadian National Railway Co.	1,482,878	3,475,269	3.4
11,915	George Weston Ltd.	782,884	1,195,670	1.2
		2,265,762	4,670,939	4.6
	Retail:			
95,000	Reitmans Canada Ltd.	835,820	732,450	0.7
	TOTAL CANADIAN EQUITIES	58,265,061	69,847,756	68.3
	TOTAL CANADIAN BONDS AND EQUITIES	61,628,792	73,312,356	71.7
	INTERNATIONAL BONDS			
400,000	Molson Coors International LP, 3.950%, 10/06/2017	398,740	418,033	0.4
	TOTAL INTERNATIONAL BONDS	398,740	418,033	0.4

SCHEDULE OF INVESTMENTS

December 31, 2014

Number of shares / par value	Investments owned	Average cost	Fair value	% of net assets
	INTERNATIONAL EQUITIES			
36,880	HSBC Holdings PLC, ADR	1,926,350	2,017,492	2.0
52,435	Rio Tinto PLC	2,607,800	2,797,359	2.7
31,000	Royal Dutch Shell PLC, ADR	2,277,709	2,403,894	2.4
27,130	Total SA, ADR	1,390,346	1,608,877	1.6
26,705	Vodafone Group PLC, ADR	761,814	1,056,915	1.0
	TOTAL INTERNATIONAL EQUITIES	8,964,019	9,884,537	9.7
	U.S. EQUITIES			
60,000	Bank of America Corp.	846,931	1,243,268	1.2
11,200	Caterpillar Inc.	982,490	1,187,365	1.2
58,000	Coach Inc.	2,375,697	2,523,229	2.5
31,200	Financial Select Sector SPDR Fund	662,459	893,679	0.9
11,200	Johnson & Johnson Inc.	740,260	1,356,526	1.3
50,000	Peabody Energy Corp.	922,370	448,244	0.4
63,075	Pfizer Inc.	1,174,777	2,275,718	2.2
15,265	Philip Morris International Inc.	778,645	1,440,094	1.4
12,876	Verizon Communications Inc.	416,181	697,661	0.7
	TOTAL U.S. EQUITIES	8,899,810	12,065,784	11.8
	TOTAL INTERNATIONAL AND U.S. EQUITIES	17,863,829	21,950,321	21.5
	TOTAL INTERNATIONAL BONDS AND INTERNATIONAL AND U.S. EQUITIES	18,262,569	22,368,354	21.9
	TOTAL BONDS AND EQUITIES	79,891,361	95,680,710	93.6
	Transaction costs	(150,101)	–	–
	Total investments	$ 79,741,260	95,680,710	93.6
	Other assets, net of liabilities		6,575,382	6.4
	Net assets attributable to holders of redeemable units		$ 102,256,092	100.0

See accompanying notes to financial statements.

1. THE FUND:

(a) Establishment of the Fund:

Citadel Income Fund (the "Fund") is the name of the combined fund resulting from the merger on December 2, 2009 of Crown Hill Fund ("CHF") with Citadel Premium Income Fund ("Premium"), Citadel HYTES Fund ("Hytes"), Citadel S-1 Income Trust Fund ("Citadel S-1"), Citadel Stable S-1 Income Fund ("Stable") and Equal Weight Plus Fund ("Equal Weight") (collectively the "Previous Citadel Funds"). The Fund acquired the investment portfolios and other assets of the Previous Citadel Funds on December 2, 2009, but did not assume any liabilities of the Previous Citadel Funds. Since the merger was an acquisition, it was done on a taxable basis. The Previous Citadel Funds' unitholders received the following number of units of the Fund for each unit held prior to the merger: Premium unitholders received 1.1581 units; Hytes unitholders received 1.7545 units; Citadel S-1 unitholders received 1.8629 units; Stable unitholders received 1.0765 units; and Equal Weight unitholders received 0.8028 units. The address of the Fund's registered office is 1325 Lawrence Avenue East, Suite 200, Toronto, ON, M3A 1C6, Canada.

(b) Change in Manager:

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

(c) Change in Portfolio Advisor:

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

The financial statements were authorized for issue by Artemis Investment Management Limited on March 17, 2015.

2. INVESTMENT OBJECTIVES OF THE FUND:

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

3. INCOME TAXES:

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

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

As of December 31, 2014, the Fund had non-capital losses of approximately $490,752 (December 31, 2013 – $2,962,020; January 1, 2013 – nil) that expire in 2033.

4. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the Chartered Professional Accountants of Canada Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 14 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

(a) Cash and short-term investments:

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

(b) Financial instruments:

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

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

(c) Valuation of investments:

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

(d) Investment transactions and income recognition:

(i) Investment transactions are accounted for on the trade date.
(ii) Interest income for distribution purposes is recognized on an accrual basis based on the bond coupon rate.
(iii) Dividend income is recorded on the ex-dividend date.
(iv) Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

(e) Foreign currency translation:

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

The fair value of investments and other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rates prevailing on each valuation date.

Purchases and sales of investments, income and expenses denominated in foreign currencies are converted into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions. Realized exchange gains (losses) on investments, and unrealized exchange gains (losses) on investments, if any, are included in net realized gain on sale of investments and change in unrealized appreciation (depreciation) on investments in the statements of comprehensive income.

(f) Distributions:

Distributions to unitholders are recorded by the Fund when declared.

(g) Securities lending:

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

The market value of the loaned securities is determined on the close of any valuation date, and any additional required collateral is made by the Fund on the next business day. The securities on loan continue to be included on the schedule of investments and are included in the total value on the statements of financial position in financial assets at FVTPL.

As at December 31, 2014, December 31, 2013 and January 1, 2013, the Fund had no securities on loan.

(h) Increase (decrease) in net assets attributable to holders of redeemable units per unit:

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

(i) Future accounting changes:

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS:

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

Fair value measurement of derivatives and securities not quoted in an active market:

Fair values of instruments not quoted in active markets are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

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

6. FAIR VALUE DISCLOSURES:

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

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

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

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

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

December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL:				
Equities	$ 91,798,077	$ –	$ –	$ 91,798,077
Bonds	–	3,882,633	–	3,882,633
Total	$ 91,798,077	$ 3,882,633	$ –	$ 95,680,710

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

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL:				
Equities	$105,979,325	$ –	$ –	$105,979,325
Bonds	–	5,992,260	–	5,992,260
Total	$105,979,325	$ 5,992,260	$ –	$111,971,585

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

January 1, 2013	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Equities	$ 92,241,872	$ –	$ –	$ 92,241,872
Bonds	–	12,213,783	–	12,213,783
Total	$ 92,241,872	$ 12,213,783	$ –	$104,455,655

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

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

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

7. UNITS ISSUED AND OUTSTANDING:

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

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

The following unit transactions took place during the years ended December 31, 2014 and 2013:

(a) Units issued and outstanding:

	2014	2013
Units, beginning of year	25,041,625	23,484,986
Issued under distribution reinvestment plan ("DRIP")	257,762	39,625
Warrants exercised	–	4,021,821
Units repurchased or cancelled under normal course issuer bid ("NCIB")	–	(2,000)
Units redeemed	(2,507,431)	(2,502,807)
Units, end of year	22,791,956	25,041,625

(b) Warrants issued and outstanding:

	2014	2013
Warrants outstanding, beginning of year	–	–
Warrants issued during the year	–	22,504,159
Warrants exercised during the year	–	(4,021,821)
Warrants expired during the year	–	(18,482,338)
Warrants outstanding, end of year	–	–

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

Unitholders are entitled to retract their units outstanding on the last business day of each month at an amount equal to (a) the lesser of: (i) 90% of the weighted average trading price of a unit on the TSX during the preceding 15 trading days and (ii) the closing market price on the TSX on that day, less (b) any retraction costs. As well, the Board of Directors of the Trustee may set a date on which units will be retracted at the NAV per unit less any retraction costs.

(c) Redemptions and retractions:
The maximum number of units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the last business day of November in the preceding year, less the number of units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). The public float as determined on November 29, 2013 was 25,037,922 units and 10% of the public float was 2,503,792 units. From January 1, 2014 to December 31, 2014, the Fund did not repurchase any units for cancellation.

Through the monthly redemption feature offered during 2014, 3,639 units were redeemed for a total cost of $16,732. Through the monthly redemption feature offered during 2013, as at December 31, 2,807 units had been redeemed for a total cost of $9,367.

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

Through the annual redemption feature offered in November 2014, 2,503,792 units were redeemed for a total cost of $11,595,763. Through the annual redemption feature offered in November 2013, 1,500,000 units were redeemed for a total cost of $6,787,444. Through the special retraction feature offered in January 2013, 1,000,000 units were redeemed for a total cost of $4,355,000.

For the year ended December 31, 2014, the Fund did not repurchase any units for cancellation under its NCIB program that expired February 5, 2014. For the year ended December 31, 2013, the Fund repurchased 2,000 units for cancellation at an average cost of $4.24 per unit under the NCIB (note 10).

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

8. RELATED PARTY TRANSACTIONS:

The Fund is responsible for all expenses incurred. Prior to Artemis becoming the Manager, all expenses of the Fund were initially paid by the manager, who was then reimbursed by the Fund. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Manager is entitled to receive a management fee of 1.00% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2014, management fees totaled $1,261,943 (2013 – $1,152,264), of which $106,114 was payable as at December 31, 2014 (2013 – $88,637).

The Portfolio Advisor receives a fee of 0.33% per annum of the average NAV of the Fund, plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2014, investment management fees totaled $419,149 (2013 – $437,338), of which $35,018 was payable at December 31, 2014 (2013 – $ 29,385).

Administrative expenses for the year ended December 31, 2014 totalled $548,868 (2013 – $7,394,561). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis receives $35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies. In addition to recurring administrative expenses of the Fund, certain non-recurring expenses in 2013 were a result of Crown Hill announcing its resignation as trustee and manager of the Fund as of January 15, 2013 (note 1(b)).

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

9. FINANCIAL RISK MANAGEMENT:

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

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

The most significant exposure to market risk is from equity securities. As at December 31, 2014, had the prices on the respective stock exchanges for these securities raised (lowered) by 5%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased (decreased) by approximately $4,784,036 (approximately 4.68% of NAV) (December 31, 2013 – $5,599,500, approximately 4.93% of NAV; January 1, 2013 – $5,223,000, approximately 4.89% of NAV). In practice, the actual results may differ and the difference could be material.

(b) Foreign currency risk:

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

As at December 31, 2014, the Fund invests approximately 28.4% (December 31, 2013 – 25.6%; January 1, 2013 – 12.6%) of the investment portfolio in U.S. currency. At December 31, 2014, if the Canadian dollar had strengthened (weakened) by 5%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased (decreased) by approximately $1,449,896 (approximately 1.4% of NAV) (December 31, 2013 – $1,452,500, approximately 1.3% of NAV; January 1, 2013 – $671,000, approximately 0.6% of the investment portfolio). In practice, the actual results may differ and the difference could be material.

(c) Interest rate risk:

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

As at December 31, 2014, the Fund had approximately 89.8% of the investment portfolio in equity securities (December 31, 2013 – 94.7%; January 1, 2013 – 88.3%). Cash and short-term investments earn minimal interest. The Fund also invests in securities which subject the Fund to interest rate risk. As at December 31, 2014, if interest rates increased by 1% with all other variables held constant, the fair value of the securities as shown on the Fund's schedule of investments would have decreased by approximately $83,163 (December 31, 2013 – $212,043; January 1, 2013 – $900,498). In practice, the actual results may differ and the difference could be material.

(d) Credit risk:

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

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

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

As at December 31, 2014, $3,882,633 of the Fund's investments had credit risk exposure (December 31, 2013 – $5,992,260; January 1, 2013 – $12,213,783).

(e) Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial obligations. The Fund is exposed to a monthly redemption of units at which time the units of the Fund are redeemed at the current transactional net assets per unit. Liquidity risk is managed by investing the Fund's assets in investments that can be readily disposed.

The Fund's liquid investments are considered to be in excess of the redemption requirements. Therefore, as at December 31, 2014, December 31, 2013 and January 1, 2013, the Fund's liquidity risk is considered minimal.

(f) Concentration risk:

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

	Percentage of NAV		
Sector	December 31, 2014	December 31, 2013	January 1, 2013
Bonds:			
Canadian corporate bonds	3.4	4.9	10.6
U.S. corporate bonds	–	–	0.9
International corporate bonds	0.4	0.4	0.1
Canadian equities:			
Oil and gas corporations	4.6	5.2	5.1
Pipeline/Energy investments	11.9	14.0	18.5
Materials	9.5	11.3	3.4
Consumer goods and services	4.6	4.3	10.6
Retail	0.7	0.6	–
Financial services	26.9	21.6	15.9
Integrated financial services	1.2	1.1	1.9
Telecommunication services	8.9	9.8	10.6
U.S. equities	11.8	17.3	13.6
International equities	9.7	8.1	6.7
Other assets less liabilities	6.4	1.4	2.1
Total	100.0	100.0	100.0

10. NCIB PROGRAM:

Under the NCIB Program, the Fund was entitled to purchase up to 2,248,541 units of the Fund, subject to certain restrictions. Further information on this matter can be found in the press release dated February 4, 2013 on the Fund's SEDAR profile at www.sedar.com. The NCIB Program expired on February 5, 2014. For the year ended December 31, 2014, the Fund did not repurchase any units for cancellation under its NCIB program.

11. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS:

The brokerage commissions paid for the year ended December 31, 2014 were $57,141 (2013 – $121,000). The commissions were incurred solely for order execution services. Such costs are expensed and are included in transaction costs in the statements of comprehensive income. The Fund paid $8,906 in soft dollar commission for the year ended December 31, 2014 (2013 – $28,187).

12. CAPITAL MANAGEMENT:

The Fund's capital is its net assets attributable to holders of redeemable units. The Fund's Manager maintains the Fund's capital in accordance with its investment objectives, strategies and restrictions as detailed in its Declaration of Trust.

13. FINANCIAL INSTRUMENTS BY CATEGORY:

The Fund's financial instruments as at December 31, 2014, December 31, 2013 and January 1, 2013 are designated as FVTPL with the exception of accrued interest, dividends receivable, prepaid expenses, other receivables, distributions payable, management fees payable and accounts payable and accrued liabilities, which are classified as loans and receivables.

For the years ended December 31, 2014 and 2013, the Fund's net gains (losses) on financial instruments with the exception of derivatives, were all on financial instruments designated as FVTPL.

14. TRANSITION TO IFRS:

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

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

(b) Statement of cash flows:
Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1, Presentation of Financial Statements requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods, without exception.

(c) Reconciliation of net assets and comprehensive income as previously reported under Canadian GAAP to IFRS as at transition date January 1, 2013 and December 31, 2013, and for the year ended December 31, 2013, respectively:

Reconciliation of net assets:

	December 31, 2013	January 1, 2013
Net assets as reported under Canadian GAAP	$ 113,494,197	$ 106,625,257
Revaluation of investments at FVTPL	58,894	186,534
Net assets attributable to holders of redeemable units	$ 113,553,091	$ 106,811,791

Reconciliation of comprehensive income:

	December 31, 2013
Comprehensive income as reported under Canadian GAAP	$ 11,797,666
Revaluation of investments at FVTPL	(127,640)
Increase in net assets attributable to holders of redeemable units	$ 11,670,026

(d) Classification of redeemable units issued by the Fund:

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32, Financial Instruments – Presentation ("IAS 32"), requires that units or shares of an entity which include multiple contractual obligations for the issuer, be classified as financial liability. The Fund's units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

(e) Revaluation of investments at FVTPL:

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

(f) Reclassification adjustments:

In addition to the measurement adjustments noted above, the Fund reclassified certain amounts upon transition in order to conform to its financial statement presentation under IFRS. Withholding taxes of $119,119 for the year ended December 31, 2013 which were previously netted against dividend income under Canadian GAAP have been reclassified and presented separately as expense under IFRS.

15. RECENT DEVELOPMENTS:

Monthly distribution for 2015:

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

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