



Artemis

Investment Management



2023

CITADEL INCOME FUND

ANNUAL REPORT

DECEMBER 31, 2023

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MANAGEMENT REPORT OF FUND PERFORMANCE

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.sedarplus.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. (the “Portfolio Advisor”).

INVESTMENT OBJECTIVES AND STRATEGIES

The Fund’s investment objectives are to provide its 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 (the “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 the Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the Portfolio Securities which have a direct effect on the NAV of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the Portfolio Securities. 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 Portfolio Securities may reduce these risks.

There were no changes in the period ended December 31, 2023 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 22, 2024 on the Fund’s SEDAR+ profile at www.sedarplus.ca.

RESULTS OF OPERATIONS

The NAV of the Fund decreased from \$36.30 million to \$11.21 million from January 1, 2023, to December 31, 2023, primarily due to the special redemption feature offered in December 2023. Through the special redemption feature, Unitholders redeemed 7,186,900 Units, reducing the NAV of the Fund by \$25.61 million. Total revenue per Unit for the Fund period ended December 31, 2023, was \$0.051, compared to \$0.104 for the same period in 2022. Operations for the period resulted in an increase in NAV per Unit of \$0.241 compared to a decrease of \$1.229 for 2022.

Total administrative expenses for the period ended December 31, 2023, were \$0.046 per Unit compared to \$0.042 for 2022. Management fees for the period decreased to \$0.040 per Unit (2022 – \$0.043) due to a decrease in average weighed NAV of the Fund between periods. Investment management fees for the period also decreased to \$0.013 per Unit (2022- \$0.014). In the reporting period, legal fees increased to \$0.118 per Unit, up from \$0.004 in 2022, primarily attributed to Unitholder requisition activity, a Unitholder meeting, and special redemptions in 2023. Excluding the expenses discussed above, all other expenses of the Fund for the period ended December 31, 2023, were \$0.023 per Unit (2022 – \$0.022).

Over the course of 2023, the S&P/TSX Composite Index had a total return of 11.75% while the S&P 500 had a total return of 24.74% (in Canadian dollar terms). The bearish sentiment that the year started with was gradually replaced with bullish optimism as incoming economic data increasingly supported a

MANAGEMENT REPORT OF FUND PERFORMANCE

change in rate hiking bias by the U.S. Federal Reserve. In the latter half of the year, inflation began gradually trending downward toward the U.S. Federal Reserve's 2% target, consumer spending largely held in, and the unemployment rate ticked up modestly. The softened tone toward further rate hikes in the Federal Open Market Committee's last statement for 2023 and Jerome Powell's related press conference remarks buoyed investor sentiment further that the interest rate hiking cycle had likely peaked. The resulting boost to market valuations was multiple expansion predicated upon rates coming down (and faster) in 2024, with no recession or modest deceleration of economic growth for this year. We are skeptical of the presumptions made to arrive at the current consensus market view. Consensus expectations may prove accurate, but any uncertainty of forward earnings growth will weigh on the multiple expansion we have just witnessed. If those estimates prove overly optimistic, or interest rates come down slower than anticipated, we could see multiple contractions. Lastly, it is worth noting how wrong consensus expectations of earnings at the outset of 2023 proved to be. It will be hard to build on this rally without evidence of further growth in earnings to support current valuations.

Notwithstanding the foregoing, the Fund's Portfolio Advisor expects continued normalization of inflation and interest rates as well as a resumption of demographic and productivity growth as structural drivers of long-term U.S. and global GDP growth. The Fund is accordingly positioned for the deflationary impacts of slowing demographics and increased labor productivity from technological advancements.

The NAV per Unit, after distributions to Unitholders, increased 1.4% for the period ended December 31, 2023. During the period, the Fund paid total distributions of \$0.21 per Unit. For the year ending December 31, 2023, the Fund redeemed a total of 7,187,266 Units, with 7,186,900 Units redeemed in response to an extraordinary resolution passed by the Unitholders.

TRADING PREMIUM/DISCOUNT

In 2023 the Fund traded at an average discount to its NAV per Unit of 18.87%, compared to an average discount of 27.81% for 2022.

RECENT DEVELOPMENTS

Monthly Distribution for 2024

On January 15, 2024, the Fund announced distributions for 2024 of \$0.01 per Unit per month. Unitholders of record on the last day of each month will be paid distributions on the 15th day (or first business day thereafter) of the ensuing month.

Redemptions and Retractions

On November 07, 2023, during the special meeting, the unitholders of the Fund approved an extraordinary resolution authorizing the Fund to redeem an aggregate of not less than 7,186,900 Units of the Fund at an amount per Unit equal to the NAV per Unit less redemption costs equal to 4.5% of the NAV per Unit plus applicable taxes. For the year ended December 31, 2023, a total of 7,186,900 Units were redeemed at a price of \$3.3818 per Unit pursuant to the special redemption privilege mentioned above.

Administrative Charges

As of January 1, 2024, the Manager decreased the monthly administrative expenses payable to the Manager from \$35,000, plus applicable taxes, to \$10,500, plus applicable taxes.

Proposed Fund Conversion Transaction

As part of the previously announced strategic review process conducted by Artemis to identify value-enhancing strategic alternatives for the Fund, a fund conversion transaction was identified as an opportunity to offer Unitholders the ability to participate in the historic rates of appreciation of residential real estate. During the year, Unitholders may be asked to approve certain amendments to the Fund's declaration of trust, including amending the Fund's investment strategy, objectives, and restrictions for the limited purpose of permitting the Fund to, and only to the extent required to permit the Fund to, exclusively invest in a portfolio of resale residential real estate properties in Canada through co-ownership agreements with homebuyers and reducing total expense ratio to a cap of 2.5% and to remove the annual and monthly redemption rights of Unitholders. After giving effect to the Fund conversion, the Fund will no longer be an investment fund, and will operate as a non-investment fund reporting issuer.

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, 2023, management fees totaled \$397,467 (2022 – \$481,735), of which \$21,975 was payable as at December 31, 2023 (2022 – \$35,962).

MANAGEMENT REPORT OF FUND PERFORMANCE

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, 2023, investment management fees totaled \$131,164 (2022 – \$158,973), of which \$7,252 was payable at December 31, 2023 (2022 – \$11,868).

Administrative expenses for the year ended December 31, 2023 totaled \$459,384 (2022 – \$462,966). As part of these expenses, the Fund pays a general overhead cost to Artemis of \$35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies.

For redemptions or repurchases the Manager is entitled to receive a fee per Unit of 5% of the NAV per Unit plus applicable taxes. However, as approved by an extraordinary resolution, the redemption fee for the 2023 one-time special redemption was reduced to 4.5% of the NAV per Unit plus applicable taxes. For the year ended December 31, 2023, fees in the amount of \$1,301,595 (2022 – \$173,514) were paid to the Manager.

MANAGEMENT REPORT OF FUND PERFORMANCE

FINANCIAL HIGHLIGHTS

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

The Fund's Net Assets per Unit ⁽¹⁾

For the period Ended	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
Net Assets, beginning of year	\$ 3.54	\$ 4.90	\$ 4.33	\$ 4.19	\$ 4.02
Increase (decrease) from operations:					
total revenue	0.05	0.10	0.05	0.12	0.11
total expenses (excluding distributions)	(0.25)	(0.12)	(0.14)	(0.12)	(0.12)
realized gains (losses) for the year	0.28	(0.15)	0.36	0.00	0.45
unrealized gains (losses) for the year	0.16	(1.06)	0.46	0.25	(0.15)
Total increase (decrease) from operations ⁽²⁾	\$ 0.24	\$ (1.23)	\$ 0.73	\$ 0.25	\$ 0.29
Distributions:					
From net Investment Income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	–	–	0.09	–	0.47
Return of capital	0.21	0.12	0.03	0.12	–
Total Annual Distributions ⁽³⁾	0.21	0.12	0.12	0.12	0.47
Net assets as at end of each period shown	\$ 3.59	\$ 3.54	\$ 4.90	\$ 4.33	\$ 4.19

(1) 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.

(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) Distributions were paid in cash or Units, or both.

MANAGEMENT REPORT OF FUND PERFORMANCE

RATIOS AND SUPPLEMENTAL DATA

For the Period Ended	31-Dec-23	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19
Total net asset value (\$000's) ⁽¹⁾	\$ 11,205	\$ 36,303	\$ 54,576	\$ 53,380	\$ 57,323
Number of Units outstanding (000's) ⁽¹⁾	3,118	10,244	11,144	12,335	13,681
Management expense ratio ⁽²⁾	6.57%	3.12%	2.77%	2.80%	2.58%
Trading expense ratio ⁽³⁾	0.03%	0.12%	0.22%	0.10%	0.16%
Portfolio turnover ratio ⁽⁴⁾	28.68%	70.00%	171.02%	65.49%	111.11%
Net asset value per Unit	\$ 3.59	\$ 3.54	\$ 4.90	\$ 4.33	\$ 4.19
Closing market price	\$ 2.60	\$ 2.35	\$ 3.56	\$ 2.83	\$ 3.23

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

(2) Management expense ratio is based on total expenses (excluding distributions, commissions and other Portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average NAV during the period.

(3) The trading expense ratio represents total commissions and other Portfolio transaction costs expressed as an annualized percentage of daily average NAV during the period.

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

MANAGEMENT REPORT OF FUND PERFORMANCE

MANAGEMENT FEES

The Manager is entitled to receive a management fee of 1.00% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly, in exchange for management services provided to 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 to the Fund.

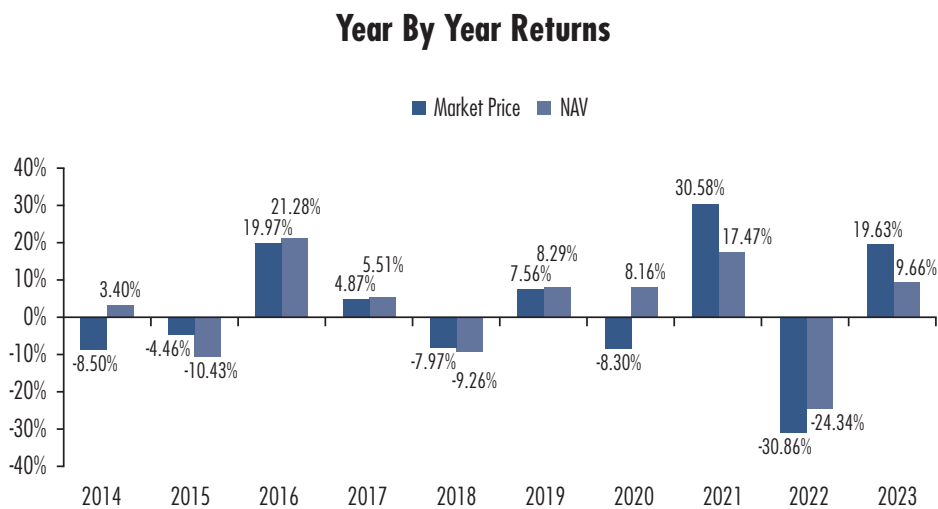
PAST PERFORMANCE

The Fund's performance numbers represent the annual compound total returns over the periods indicated to December 31, 2023. 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 on the reinvestment dates for the year.

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

The total return of the Fund for the period ended December 31, 2023 was positive 9.66% measured in terms of its NAV. The total return of the market price per Unit for the period ended December 31, 2023, was positive 19.63%.

The following chart shows the Fund's performance as at the date shown, and illustrates how the Fund's performance has changed. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial period would have grown or decreased by the last day of each period.



The Fund commenced operations as of May 2004. For 2023 and prior years, this represents the annual return, unadjusted for the exercise of warrants, for the twelve-month period ended December 31.

MANAGEMENT REPORT OF FUND PERFORMANCE

ANNUAL COMPOUND RETURNS

The following table presents the annual compound returns for the Fund based on market price and net assets per Unit for the period indicated to December 31, 2023.

	1-Year	3-Year	5-Year	10-Year
Citadel Income Fund (Market Price)	19.63%	2.52%	1.11%	0.60%
Citadel Income Fund (Net Assets)	9.66%	(2.43)%	1.13%	0.79%
iShares S&P/TSX 60 Index Fund	11.64%	10.17%	11.31%	7.98%
Composite Benchmark ⁽¹⁾	10.59%	7.96%	9.46%	7.19%

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

For all periods ended December 31, 2023, the Fund underperformed both the iShares S&P/TSX 60 Index Fund and the Composite Benchmark (together, the "Indices"), after taking into consideration the expenses of the Fund. In addition to the effect of the deduction of management fees and expenses inherent in the Fund's performance figures, this reflects differences in individual portfolio selections between the Fund's portfolio and the Indices within each of the sectors, which result in different average sector returns. It may also reflect the differences in average sector weightings between the Fund's portfolio and the Indices over these periods.

MANAGEMENT REPORT OF FUND PERFORMANCE

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2023

Total Net Assets: \$11,205,235

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 Aggregate NAV
Canadian Equities	
Pipeline/Energy Investments	5.00%
Consumer Goods & Services	7.10%
Consumer Discretionary	5.60%
Real Estate	2.20%
Information Technology	4.70%
Industrial	2.80%
Total Canadian Equities	27.40%
International Equities (U.S. & Others)	68.4%
Cash	5.80%
Other Assets, Net of Liabilities	(1.60)%
Total Net Assets	100.00%

TOP HOLDINGS (as a % of Total NAV of the Fund)

As at December 31, 2023

Alphabet Inc.	6.66%	HCA Healthcare Inc.	3.69%
iShares 0-3 Month Treasury Bond ETF	6.47%	Loblaw Cos. Ltd.	3.57%
Microsoft Corp.	6.45%	Aritzia Inc.	3.49%
UnitedHealth Group Inc.	6.36%	Shell PLC	3.22%
Blackstone Inc.	6.19%	Canadian Pacific Kansas City Ltd.	2.83%
Cash and cash equivalents	5.80%	Crocs Inc.	2.32%
Advanced Micro Devices Inc.	5.77%	Freeport-McMoRan Inc.	2.32%
Linamar Corp.	5.60%	Apple Inc.	2.31%
Thermo Fisher Scientific Inc.	5.27%	DREAM Unlimited Corp.	2.23%
Procter & Gamble Co.	5.23%	Vulcan Materials Co.	1.75%
Constellation Software Inc.	4.69%	Canadian Natural Resources Ltd – USD	0.63%
Canadian Natural Resources Ltd.- CAD	4.43%	Other Assets, Net of Liabilities	(1.60)%
Mastercard Inc.	4.31%	% of Total Net Assets	100.00%

MANAGEMENT REPORT OF FUND PERFORMANCE

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

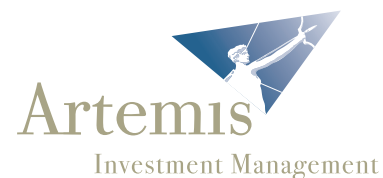
This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent the Manager's or Portfolio Advisor's expectations regarding future events. By their nature, forward-looking 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

And Independent Auditor's Report thereon

Years ended December 31, 2023 and 2022





KPMG LLP

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Citadel Income Fund

Opinion

We have audited the financial statements of Citadel Income Fund (the Fund), which comprise:

- the statements of financial position as at December 31, 2023 and December 31, 2022
- the statements of comprehensive income (loss) for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2023 and December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “**Auditor’s Responsibilities for the Audit of the Financial Statements**” section of our auditor’s report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management Report of Fund Performance to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.



We obtained the Management Report of Fund Performance to be filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 19, 2024

CITADEL INCOME FUND

STATEMENTS OF FINANCIAL POSITION

December 31, 2023 and 2022

	2023	2022
Assets		
Financial assets at fair value through profit or loss (note 4)	\$ 10,739,041	\$ 27,678,777
Cash	644,363	8,920,587
Dividends receivable	18,508	35,589
Other receivables	31,323	13,541
	<u>11,433,235</u>	<u>36,648,494</u>
Liabilities		
Distributions payable	93,531	102,436
Management fees and investment management fees payable (note 8)	29,226	47,830
Accounts payable and accrued liabilities (note 8)	105,243	194,839
	<u>228,000</u>	<u>345,105</u>
Net assets attributable to holders of redeemable units	<u>\$ 11,205,235</u>	<u>\$ 36,303,389</u>
Number of redeemable units outstanding (note 7)	<u>3,117,698</u>	<u>10,243,626</u>
Net assets attributable to holders of redeemable units per unit	<u>\$ 3.59</u>	<u>\$ 3.54</u>

See accompanying notes to financial statements.

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



Trevor Maunder
Director



Gavin Swartzman
Director

CITADEL INCOME FUND

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2023 and 2022

	2023	2022
Income:		
Dividends	\$ 549,546	\$ 367,044
Interest income for distribution purposes	139,556	144,531
Foreign exchange (loss) gain on cash	(182,543)	645,180
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on sale of investments, including foreign exchange adjustments	2,763,611	(1,652,575)
Change in unrealized (depreciation) appreciation in value of investments	1,539,582	(11,704,887)
	<u>4,809,752</u>	<u>(12,200,707)</u>
Expenses:		
Management fees (note 8)	397,467	481,735
Administrative (note 8)	459,384	462,966
Investment management fees (note 8)	131,164	158,973
Unitholder servicing fees	69,514	65,285
Audit fees	78,783	68,162
Custody, valuation and transfer fees	33,702	22,239
Regulatory and listing fees	16,736	16,074
Independent review committee fees	21,761	22,438
Legal fees	1,162,712	43,806
Interest	17	2,927
Portfolio transaction costs (note 10)	11,330	51,776
	<u>2,382,570</u>	<u>1,396,381</u>
Operating profit (loss) before taxes	<u>2,427,182</u>	<u>(13,597,088)</u>
Withholding taxes/reclaims	<u>47,272</u>	<u>23,889</u>
Increase (decrease) in net assets attributable to holders of redeemable units from operations	<u>\$ 2,379,910</u>	<u>\$ (13,620,977)</u>
Weighted average number of units outstanding	<u>9,895,086</u>	<u>11,080,158</u>
Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit ⁽¹⁾	<u>\$ 0.24</u>	<u>\$ (1.23)</u>

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

See accompanying notes to financial statements.

CITADEL INCOME FUND

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

Years ended December 31, 2023 and 2022

	2023	2022
Net assets attributable to holders of redeemable units, beginning of year	\$ 36,303,389	\$ 54,575,953
Increase (decrease) in net assets attributable to holders of redeemable units from operations	2,379,910	(13,620,977)
Redeemable unit transactions (note 7):		
Reinvested distributions	175,246	137,324
Redemption of redeemable units	(25,607,045)	(3,470,336)
	(25,431,799)	(3,333,012)
Distributions to holders of redeemable units:		
Return to holders of redeemable units	(2,046,265)	(1,318,575)
Net decrease in net assets attributable to holders of redeemable units for the year	(25,098,154)	(18,272,564)
Net assets attributable to holders of redeemable units, end of year	\$ 11,205,235	\$ 36,303,389
Distributions per unit	\$ 0.21	\$ 0.12

See accompanying notes to financial statements.

CITADEL INCOME FUND

STATEMENTS OF CASH FLOWS

Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from (used in) operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units from operations	\$ 2,379,910	\$ (13,620,977)
Adjustments for:		
Net realized (gain) loss on sale of investments	(2,763,611)	1,652,575
Portfolio transaction costs	11,330	51,776
Foreign exchange loss (gain) on cash	182,543	(645,180)
Change in unrealized (appreciation) depreciation in value of investments	(1,539,582)	11,704,887
Purchases of investments	(10,350,193)	(30,210,915)
Proceeds from sale of investments	31,581,792	43,678,461
Decrease in dividends receivable	17,081	17,260
(Increase) decrease in other receivables	(17,782)	15,696
Decrease in management fees and investment management fees payable	(18,604)	(19,845)
(Decrease) increase in accounts payable and accrued liabilities	(89,596)	3,081
	19,393,288	12,626,819
Cash flows used in financing activities:		
Distributions paid to holders of redeemable units, net of reinvested distributions	(1,879,924)	(1,190,251)
Amounts paid for redeemable units redeemed	(25,607,045)	(3,470,442)
	(27,486,969)	(4,660,693)
Foreign exchange (loss) gain on cash	(182,543)	645,180
Net (decrease) increase in cash	(8,276,224)	8,611,306
Cash, beginning of year	8,920,587	309,281
Cash, end of year	\$ 644,363	\$ 8,920,587
Supplemental information:		
Dividends received, net of withholding taxes	\$ 519,355	\$ 408,193
Interest received, net of withholding taxes	139,556	144,531
Interest paid	(17)	(2,927)

See accompanying notes to financial statements.

CITADEL INCOME FUND

SCHEDULE OF INVESTMENTS

December 31, 2023				
Number of shares	Investments owned	Average cost	Fair value	% of net assets
CANADIAN EQUITIES				
Energy:				
5,715	Canadian Natural Resources Ltd. — CAD	\$ 403,874	\$ 496,119	4.4
815	Canadian Natural Resources Ltd. — USD	52,732	70,412	0.6
		456,606	566,531	5.0
Information technology:				
160	Constellation Software Inc.	347,403	525,643	4.7
Real estate:				
11,050	DREAM Unlimited Corp.	278,007	250,283	2.2
Consumer goods and services:				
14,235	Aritzia Inc.	636,606	391,463	3.5
3,117	Loblaw Cos Ltd.	250,512	399,849	3.6
		887,118	791,312	7.1
Consumer discretionary:				
9,809	Linamar Corp.	588,915	627,972	5.6
Industrial:				
3,030	Canadian Pacific Kansas City Ltd.	312,884	317,665	2.8
TOTAL CANADIAN EQUITIES		2,870,933	3,079,406	27.4
U.S. EQUITIES				
3,329	Advanced Micro Devices Inc	401,262	647,074	5.8
4,018	Alphabet Inc.	547,728	746,666	6.6
1,020	Apple Inc.	158,072	258,947	2.3
4,020	Blackstone Inc.	522,854	693,977	6.2
2,109	Crocs Inc.	327,610	259,766	2.3
4,627	Freeport-McMoRan Inc.	230,582	259,727	2.3
1,158	HCA Healthcare Inc.	414,244	413,312	3.7
5,500	iShares 0-3 Month Treasury Bond ETF	738,542	727,188	6.5
858	Mastercard Inc.	384,979	482,536	4.3
1,461	Microsoft Corp.	443,531	724,432	6.5
3,030	Procter & Gamble Co.	561,379	585,480	5.2
844	Thermo Fisher Scientific Inc.	598,526	590,715	5.3
1,026	UnitedHealth Group Inc.	700,585	712,253	6.4
656	Vulcan Materials Co.	159,715	196,364	1.8
TOTAL U.S. EQUITIES		6,189,609	7,298,437	65.2

CITADEL INCOME FUND

SCHEDULE OF INVESTMENTS

December 31, 2023

Number of shares	Investments owned	Average cost	Fair value	% of net assets
	INTERNATIONAL EQUITIES			
4,163	Shell PLC	\$ 314,272	\$ 361,198	3.2
	TOTAL INTERNATIONAL EQUITIES	314,272	361,198	3.2
	Transaction costs	(2,491)		
	Total investments	<u>\$ 9,372,323</u>	10,739,041	95.8
	Other assets, net of liabilities		466,194	4.2
	Net assets attributable to holders of redeemable units		\$ 11,205,235	100.0

See accompanying notes to financial statements.

CITADEL INCOME FUND

Notes to Financial Statements

Years ended December 31, 2023 and 2022

1. THE FUND:

Description of the Fund:

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

The address of the Fund’s registered office is 1325 Lawrence Avenue East, Suite 200, Toronto, ON, Canada, M3A 1C6.

The financial statements were authorized for issue by the Manager on March 19, 2024.

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. MATERIAL ACCOUNTING POLICY INFORMATION:

These financial statements have been prepared in compliance with IFRS Accounting Standards.

(a) Cash:

Cash includes cash at bank.

(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.

(i) Classification and measurement:

The Fund classifies and measures its financial instruments as either amortized cost, fair value through other comprehensive income (“FVOCI”) or FVTPL. To determine the appropriate classification and measurement category, an entity considers the business model for managing financial instruments and the contractual cash flow characteristics associated with the financial instruments.

The Fund’s business model is one in which financial assets are managed with the objective of realizing cash flows through the sale of assets. Decisions are made based on the assets’ fair values and assets are managed to realize these fair values. This business model is aligned with a FVTPL classification and

CITADEL INCOME FUND

Notes to Financial Statements

Years ended December 31, 2023 and 2022

measurement category. The Fund measures at FVTPL all financial assets currently held at fair value. Debt securities are measured at FVTPL under IFRS 9 as the Fund does not hold the assets to collect contractual cash flows based on their business model. Collection of the contractual cash flows is not integral to achieving the Fund's business model objective but is instead incidental to it.

Loans as well as trade receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, these are classified and measured at amortized cost under IFRS 9.

(ii) Impairment:

The Fund recognizes a loss allowance for expected credit losses on financial assets which are measured at amortized costs or FVOCI. Financial assets held by the Fund, which are measured at FVTPL, are not subject to impairment requirements.

With respect to loans and receivables, the Fund considers both historical analysis and forward looking information in determining any expected credit loss. As at the financial statements dates, all loans and receivables are due to be settled within the short term. The Fund considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Fund to credit risk, no loss allowance has been recognized as any such impairment does not have a significant impact on the financial statements.

(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. 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; and
- (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:

The functional and presentation currency of the Fund is the Canadian dollar.

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 (loss) on sale of investments and change in unrealized (depreciation) appreciation in value of investments in the statements of comprehensive income (loss).

(f) Distributions:

Distributions to unitholders are recorded by the Fund when declared.

(g) 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 weighted average Units outstanding for the years.

(h) Changes in accounting policies:

The Fund adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statements 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material' rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The Manager reviewed the accounting policies and made updates to the information disclosed in Note 3 in certain instances in line with the amendments.

4. 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. These financial statements include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting years. Actual results could differ from these results. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

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

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

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

(b) Business model assessment:

The Fund considered its business model for managing financial instruments and the contractual cash flow characteristics associated with the financial instruments and concluded that collection of the contractual cash flows is not integral to achieving the Fund's business model objective. Respectively, the Fund measures all investments at FVTPL and all other financial assets and liabilities at amortized cost.

5. 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 (loss).

CITADEL INCOME FUND

Notes to Financial Statements

Years ended December 31, 2023 and 2022

As at December 31, 2023, the Fund had non-capital losses of approximately \$1,060,121 (2022 – \$835,833) that will start to expire in 2042, the Fund had capital losses of approximately \$1,390,659 (2022 – \$1,390,659) which can be carried forward indefinitely for offset against capital gains in future years.

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, 2023 and 2022.

2023	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Equities	\$10,739,041	\$—	\$—	\$10,739,041

2022	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Equities	\$27,678,777	\$—	\$—	\$27,678,777

There were no transfers between levels during the years ended December 31, 2023 and 2022.

All fair value measurements above are recurring. The carrying values of cash, dividends receivable, other receivables, management fees and investment management fees payable, distributions payable and accounts 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.

As of December 31, 2023 and 2022, the Fund had no securities that were classified as Level 3 financial instruments.

CITADEL INCOME FUND

Notes to Financial Statements

Years ended December 31, 2023 and 2022

7. UNITS ISSUED AND OUTSTANDING:

(a) Authorized:

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 Units entitle unitholders the right to redeem their interest in the Fund for cash equal to their proportionate share of the NAV of the Fund, amongst other contractual rights. These redeemable Units 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 at the reporting date.

The following Unit transactions took place during the years ended December 31, 2023 and, 2022:

(b) Units issued and outstanding:

	2023	2022
Units, beginning of year	10,243,626	11,143,581
Issued under distribution reinvestment plan	61,338	51,895
Units redeemed	(7,187,266)	(951,850)
Units, end of year	3,117,698	10,243,626

Unitholders are entitled to retract their Units outstanding on the second last business day of each month at an amount equal to (i) the lesser of: (a) 90% of the weighted average trading price of a Unit on the TSX during the preceding 15 trading days and (b) the closing market price on the TSX on that day, less (ii) 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 12-month period, the maximum redemption amount. The Fund did not repurchase any Units for cancellation during the years ended December 31, 2023 and 2022.

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.

On November 7, 2023, at the special meeting held, unitholders approved an extraordinary resolution authorizing the Fund to redeem an aggregate of not less than 7,186,900 Units of the Fund at an amount per Unit equal to the NAV per Unit less redemption costs equal to 4.5% of the NAV per Unit plus applicable taxes. On December 7, 2023, pursuant to the special redemption feature, the Fund redeemed 7,186,900 Units at a price of \$3.3818 per Unit after accounting for redemption fees and applicable taxes.

Through the special redemption feature offered in December 2023, 7,186,900 Units (2022 – 891,432) were redeemed in the amount of \$25,606,206 (2022 – \$3,311,759).

(d) Distribution Reinvestment Plan:

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.

CITADEL INCOME FUND

Notes to Financial Statements

Years ended December 31, 2023 and 2022

8. RELATED PARTY TRANSACTIONS:

The Fund is responsible for all expenses incurred on its behalf. Artemis generally has all expenses incurred by the Fund paid directly by the Fund.

The Manager is entitled to receive a management fee of 1.00% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2023, management fees totaled \$397,467 (2022 – \$481,735), of which \$21,974 was payable as at December 31, 2023 (2022 – \$35,962).

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, 2023, investment management fees totaled \$131,164 (2022 – \$158,973), of which \$7,252 was payable at December 31, 2023 (2022 – \$11,868).

Administrative expenses for the year ended December 31, 2023 totaled \$459,384 (2022 – \$462,966). As part of these expenses, the Fund pays a general overhead cost to Artemis. Artemis receives \$35,000 per month plus applicable taxes to cover related administrative salaries, employee benefits, general overhead, and office supplies.

For redemptions or repurchases the Manager is entitled to receive a fee per Unit of 5% of the NAV per Unit plus applicable taxes. However, as approved by an extraordinary resolution, the redemption fee for the 2023 one-time special redemption was reduced to 4.5% of the NAV per Unit plus applicable taxes. For the year ended December 31, 2023, fees in the amount of \$1,301,595 (2022 – \$173,514) were paid to the Manager.

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, 2023, had the prices on the benchmark index raised (lowered) by 5%, with all other variables held constant, net assets attributable to holders of redeemable Units would have increased (decreased) by \$386,604 (3% of NAV) (2022 – \$1,260,949, 3% of NAV). In practice, the actual results may differ and the difference could be material. The benchmark index consists of a 65% allocation in iShares S&P/TSX 60 Fund (XIU), a 15% allocation in SPDR Dow Jones Industrial Average ETF Trust (DIA), a 10% allocation in DEX Universe Bond Index Fund (XBB) and a 10% allocation in Canadian Treasury Bills.

(b) Foreign currency risk:

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

As at December 31, 2023, the Fund invested 69.2% (2022 – 77.8%) of the net assets in U.S. currency. As at December 31, 2023, 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 decreased (increased) by \$387,912 (3.5% of NAV) (2022 – \$1,412,631, 3.9% of NAV). 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, 2023, the Fund had approximately 100% of the investment portfolio in equity securities (2022 — 100%). Cash and short-term investments earn minimal interest. As at December 31, 2023 and 2022, the majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to a significant amount of interest rate risk.

(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 creditworthiness 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 as at December 31, 2023 (2022 — AA) based on DBRS (originally known as Dominion Bond Rating Service) ratings. The Manager monitors the financial position on an ongoing basis. As at December 31, 2023 and 2022, the Fund had no significant exposure to credit risk.

(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, 2023 and 2022, the Fund's liquidity risk is considered minimal.

CITADEL INCOME FUND

Notes to Financial Statements

Years ended December 31, 2023 and 2022

(f) Concentration risk:

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

Sector	Percentage of net assets	
	2023	2022
Canadian equities:		
Pipeline/energy investments	5.0	5.9
Industrial	2.8	—
Information technology	4.7	3.3
Financial services	—	2.5
Real estate	2.2	2.1
Consumer discretionary	5.6	4.1
Consumer goods and services	7.1	6.9
U.S. equities	65.2	48.7
International equities	3.2	2.8
Other assets, net of liabilities	4.2	23.7
	100.0	100.0

10. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS:

The brokerage commissions paid for the year ended December 31, 2023 were \$11,330 (2022 — \$51,776) of which soft dollar commissions were \$7,434 (2022 — \$33,215). Brokerage commissions are expensed and are included in transaction costs in the statements of comprehensive income (loss).

11. CAPITAL MANAGEMENT:

The Fund's capital is its net assets attributable to holders of redeemable Units. The Manager maintains the Fund's capital in accordance with its investment objectives, strategies and restrictions as detailed in the amended and restated Declaration of Trust as of March 7, 2014.

12. INVESTMENT IN UNCONSOLIDATED STRUCTURED ENTITIES:

As of December 31, 2023, the Fund held an Exchange Traded Fund ("ETF") with the fair value of \$727,188 (2022 — nil). The Fund does not control or have significant influence over the ETF.

13. SUBSEQUENT EVENTS:

(a) Monthly Distribution for 2024:

On January 15, 2024, the Fund announced distributions for 2024 of \$0.01 per Unit per month. Unitholders of record on the last day of each month will be paid distributions on the 15th day (or first business date thereafter) of the ensuing month.

(b) Administrative Charges:

As of January 1, 2024, the Manager decreased the monthly administrative expenses payable to the Manager from \$35,000, plus applicable taxes, to \$10,500, plus applicable taxes.

(c) Proposed Fund Conversion Transaction:

As part of the previously announced strategic review process conducted by Artemis to identify value-enhancing strategic alternatives for the Fund, a fund conversion transaction was identified as an opportunity to offer unitholders the ability to participate in the historic rates of appreciation of residential real estate. During the year, unitholders may be asked to approve certain amendments to the Fund's declaration of trust, including amending the Fund's investment strategy, objectives, and restrictions for the limited purpose of permitting the Fund to, and only to the extent required to permit the Fund to, exclusively invest in a portfolio of resale residential real estate properties in Canada through co-ownership agreements with homebuyers and reducing total expense ratio to a cap of 2.5% and to remove the annual and monthly redemption rights of unitholders. After giving effect to the Fund conversion, the Fund will no longer be an investment fund, and will operate as a non-investment fund reporting issuer.

CORPORATE INFORMATION

MANAGER/TRUSTEE

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Trevor Maunder – Director

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