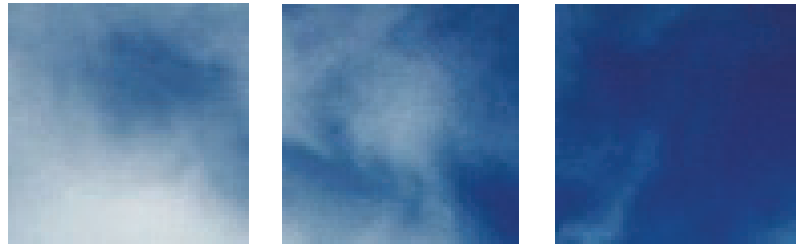




Artemis

Investment Management



2022

## CITADEL INCOME FUND

ANNUAL REPORT

DECEMBER 31, 2022

# TABLE OF CONTENTS

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<b>1</b>	<b>MANAGEMENT REPORT OF FUND PERFORMANCE</b>
<b>9</b>	<b>FINANCIAL STATEMENTS</b>
<b>14</b>	<b>STATEMENTS OF FINANCIAL POSITION</b>
<b>15</b>	<b>STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</b>
<b>16</b>	<b>STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>
<b>17</b>	<b>STATEMENTS OF CASH FLOWS</b>
<b>18</b>	<b>SCHEDULE OF INVESTMENTS</b>
<b>20</b>	<b>NOTES TO FINANCIAL STATEMENTS</b>
<b>28</b>	<b>CORPORATE INFORMATION</b>

# MANAGEMENT REPORT OF FUND PERFORMANCE

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## 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](http://www.artemisfunds.ca) or SEDAR at [www.sedar.com](http://www.sedar.com). Holders of units (“Unitholders”) may also contact us using one of these methods to request a copy of the Fund’s interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## THE FUND

The Fund is a closed-end investment trust. Artemis Investment Management Limited is the investment fund manager of the Fund (“Artemis” or the “Manager”). The Fund has one class of units (each, a “Unit”) outstanding. The Units trade on the Toronto Stock Exchange (“TSX”) under the symbol CTF.UN. The Fund’s portfolio is managed by Vestcap Investment Management Inc. (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 of securities (the “Portfolio”) 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 at least \$400 million.

## RISK

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 securities held within the Portfolio which have a direct effect on the NAV of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the 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 year ended December 31, 2022 that materially affected the risks associated with an investment in Units of the Fund. For a list of risks, see the Fund’s most recent annual information form on the Fund’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

The NAV of the Fund decreased from \$54.58 million to \$36.30 million from January 1, 2022 to December 31, 2022. Total revenue per Unit for the year ended December 31, 2022 was \$0.104, compared to \$0.054 for 2021. Operations for the year resulted in a decrease in NAV per Unit of \$1.229 compared to an increase of \$0.727 for 2021.

Total administrative expenses for the year ended December 31, 2022 were \$0.042 per Unit compared to \$0.041 for 2021. On a per Unit basis, management fees decreased for the year to \$0.043 per Unit (2021 – \$0.051) due to a decrease in the average weighted NAV of the Fund between both periods. Investment management fees on a per Unit basis also decreased for the year to \$0.014 per Unit (2021 – \$0.017). Excluding the expenses discussed above, all other expenses of the Fund for the year ended December 31, 2022 were \$0.026 per Unit (2021 – \$0.030).

Over the course of 2022, the S&P/TSX Composite Index had a total return of -5.84% while the S&P 500 had a total return of -19.10% (in Canadian dollar terms). The main theme impacting markets in 2022 was global inflation getting away from central banks and a rapid tightening of monetary conditions in response. Accelerating inflation and economic expansion in concert with lingering global supply-chain constraints created a tough environment for equity

## MANAGEMENT REPORT OF FUND PERFORMANCE

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markets which remained under pressure throughout the year. As a result, the Fund began paring down high duration and economically sensitive positions during the second quarter, raising its cash position as a result. The cash raised was selectively re-deployed in more defensive, value-oriented equities during the second half of the year. Looking forward, we expect to manage through a higher relative interest rate environment for the next year and beyond by maintaining a value tilted portfolio with remaining cash held in short-dated fixed income securities.

The NAV per Unit, after distributions to Unitholders, decreased 27.76% for the year ended December 31, 2022. During the year, the Fund paid total cash distributions of \$0.12 per Unit. There were no unusual trends in redemptions for the year ended December 31, 2022, with 951,850 Units redeemed.

### TRADING PREMIUM/DISCOUNT

In 2022 the Fund traded at an average discount to its NAV per Unit of 27.81%, compared to an average discount of 36.68% for 2021.

### RECENT DEVELOPMENTS

#### Monthly Distributions for 2023

On January 16, 2023, the Fund announced distributions for 2023 of \$0.01 per Unit per month. Unitholders of record on the last day of each month in 2023 will be paid cash distributions of \$0.01 on the 15th day (or first business day thereafter) of the ensuing month.

#### Redemptions & Retractions

The maximum number of Units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund, as determined on the last business day of November in the preceding year, less the number of Units repurchased for cancellation or otherwise redeemed by the Fund during the preceding twelve-month period. The public float as determined on November 30, 2021, was 8,914,318 Units and 10% of the public float was 891,432 Units. For the year ended December 31, 2022, 891,432 Units were redeemed at a price of \$3.5052 per Unit pursuant to the annual redemption privilege.

### 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, 2022, management fees totaled \$481,735 (2021 – \$625,946), of which \$35,962 was payable as at December 31, 2022 (2021 – \$50,883).

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, 2022, investment management fees totaled \$158,973 (2021 – \$206,566), of which \$11,868 was payable at December 31, 2022 (2021 – \$16,792).

Administrative expenses for the year ended December 31, 2022 totaled \$462,966 (2021 – \$497,961). 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.

The Manager is entitled to receive a fee per Unit of 5% of the NAV per Unit redeemed or repurchased plus applicable taxes. For the year ended December 31, 2022, fees in the amount of \$173,514 (2021 – \$321,059) 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 <sup>(1)</sup>

For the Years Ended	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18
<b>Net Assets, beginning of year</b>	<b>\$ 4.90</b>	\$ 4.33	\$ 4.19	\$ 4.02	\$ 4.60
<b>Increase (decrease) from operations:</b>					
total revenue	<b>0.10</b>	0.05	0.12	0.11	0.17
total expenses (excluding distributions)	<b>(0.12)</b>	(0.14)	(0.12)	(0.12)	(0.12)
realized gains (losses) for the year	<b>(0.15)</b>	0.36	0.00	0.45	0.04
unrealized gains (losses) for the year	<b>(1.06)</b>	0.46	0.25	(0.15)	(0.54)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ (1.23)</b>	\$ 0.73	\$ 0.25	\$ 0.29	\$ (0.45)
<b>Distributions:</b>					
From net Investment Income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains		0.09	–	0.47	–
Return of capital	<b>0.12</b>	0.03	0.12	–	0.12
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>0.12</b>	0.12	0.12	0.47	0.12
<b>Net assets at December 31 of year shown</b>	<b>\$ 3.54</b>	\$ 4.90	\$ 4.33	\$ 4.19	\$ 4.02

(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 Years Ended	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18
Total NAV (\$ 000's) <sup>(1)</sup>	\$ 36,303	\$ 54,576	\$ 53,380	\$ 57,323	\$ 60,914
Number of units outstanding (000's) <sup>(1)</sup>	10,244	11,144	12,335	13,681	15,144
Management expense ratio <sup>(2)</sup>	3.12%	2.77%	2.80%	2.58%	2.74%
Trading expense ratio <sup>(3)</sup>	0.12%	0.22%	0.10%	0.16%	0.05%
Portfolio turnover ratio <sup>(4)</sup>	70.00%	171.02%	65.49%	111.11%	12.57%
NAV per unit	\$ 3.54	\$ 4.90	\$ 4.33	\$ 4.19	\$ 4.02
Closing market price	\$ 2.35	\$ 3.56	\$ 2.83	\$ 3.23	\$ 3.12

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

# MANAGEMENT REPORT OF FUND PERFORMANCE

## MANAGEMENT FEES

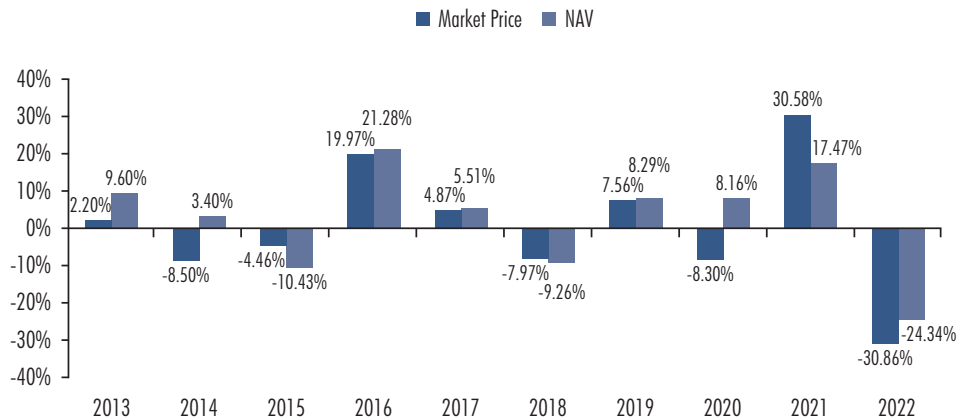
The Manager is entitled to receive a management fee of 1.00% per annum of the average NAV of the Fund plus applicable taxes, calculated and payable monthly, in exchange for management services provided to the Fund. The Portfolio Advisor receives a fee of 0.33% per annum of the average NAV of the Fund 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, 2022. Total returns are based upon both the Fund's change in market price or NAV 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, redemption or other optional charges that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future. The total return of the Fund for the year ended December 31, 2022 was -24.34% measured in terms of its NAV. The total return of the market price per Unit of the Fund for the year ended December 31, 2022 was -30.86%.

### Year By Year Returns



The Fund commenced operations as of May 2004. For 2022 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, 2022.

	1-Year	3-Year	5-Year	10-Year
Citadel Income Fund (Market Price)	(30.86)%	(6.25)%	(4.02)%	(1.05)%
Citadel Income Fund (Net Assets)	(24.34)%	(2.75)%	(2.36)%	0.81%
iShares S&P/TSX 60 Index Fund	(6.26)%	7.89%	7.17%	8.01%
Composite Benchmark <sup>(1)</sup>	(5.91)%	6.20%	6.10%	7.33%

(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, 2022, 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, 2022

Total Net Assets: \$36,303,389

The major Portfolio categories and top holdings of the Fund, as at December 31, 2022 are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing Portfolio transactions of the Fund. Quarterly updates are available at [www.artemisfunds.ca](http://www.artemisfunds.ca).

<b>Portfolio by Sector</b>	<b>% of Aggregate NAV</b>
Canadian Equities	
Pipeline/Energy Investments	5.90%
Financial Services	2.50%
Consumer Goods & Services	6.90%
Consumer Discretionary	4.10%
Real Estate	2.10%
Information Technology	3.30%
Total Canadian Equities	24.80%
International Equities (U.S. & Others)	51.50%
Cash	24.50%
Other Assets, Net of Liabilities	(0.80)%
<b>Total Net Assets</b>	<b>100.00%</b>

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

As at December 31, 2022

Microsoft Corp.	5.28%	Advanced Micro Devices Inc.	2.56%
Alphabet Inc.	4.46%	Solaredge Technologies Inc.	2.55%
Linamar Corp.	4.15%	Goeasy Ltd.	2.47%
Unitedhealth Group Inc.	3.86%	Constellation Software Inc.	2.36%
Enphase Energy Inc.	3.83%	Dream Unlimited Corp.	2.06%
Procter & Gamble Co.	3.75%	Thermo Fisher Scientific Inc.	1.95%
Loblaw Cos Ltd.	3.54%	Mastercard Inc.	1.86%
Aritzia Inc.	3.44%	Shell Plc	1.77%
Apple Inc.	3.36%	The Bank Of New York Mellon Corp.	1.52%
Blackstone Inc.	3.30%	Adobe Inc.	1.52%
Canadian Natural Resources Ltd. — Cad	3.15%	Vertex Pharmaceuticals Inc.	1.28%
Canadian Natural Resources Ltd. — Usd	2.81%	Freeport-McMoRan Inc.	1.24%
Domino'S Pizza Inc.	2.73%		
		<b>% of Total Net Assets</b>	<b>70.83%</b>

# MANAGEMENT REPORT OF FUND PERFORMANCE

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## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Financial Statements of

# **CITADEL INCOME FUND**

And Independent Auditor's Report thereon

Years ended December 31, 2022 and 2021





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, 2022 and December 31, 2021
- the statements of comprehensive income 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 significant accounting policies

(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, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***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.

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 International Financial Reporting Standards (IFRS), 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.



Page 3

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.



Page 4

- 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*

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Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Paula Foster.

Toronto, Canada

March 30, 2023

# STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
Financial assets at fair value through profit or loss (notes 3 and 4)	\$ 27,678,777	\$ 54,555,561
Cash	8,920,587	309,281
Dividends receivable	35,589	52,849
Other receivables	13,541	29,237
	36,648,494	54,946,928
<b>Liabilities</b>		
Distributions payable	102,436	111,436
Redemptions payable	—	106
Management fees and investment management fees payable (note 8)	47,830	67,675
Accounts payable and accrued liabilities (note 8)	194,839	191,758
	345,105	370,975
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 36,303,389</b>	<b>\$ 54,575,953</b>
<b>Number of redeemable units outstanding (note 7)</b>	<b>10,243,626</b>	<b>11,143,581</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>\$ 3.54</b>	<b>\$ 4.90</b>

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



# STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2022 and 2021

	2022	2021
<b>Income</b>		
Dividends	\$ 367,044	\$ 804,670
Interest income for distribution purposes	144,531	—
Foreign exchange gain (loss) on cash	645,180	(146,485)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss		
Net realized (loss) gain on sale of investments, including foreign exchange adjustments	(1,652,575)	4,395,541
Change in unrealized (depreciation) appreciation in value of investments	(11,704,887)	5,608,793
	<u>(12,200,707)</u>	<u>10,662,519</u>
<b>Expenses</b>		
Management fees (note 8)	481,735	625,946
Administrative (note 8)	462,966	497,961
Investment management fees (note 8)	158,973	206,566
Unitholder servicing fees	65,285	57,524
Audit and review fees	68,162	51,168
Custody, valuation and transfer fees	22,239	27,800
Regulatory and listing fees	16,074	29,999
Independent review committee fees	22,438	29,999
Legal fees	43,806	37,645
Interest	2,927	9,231
Portfolio transaction costs (note 10)	51,776	127,271
	<u>1,396,381</u>	<u>1,701,110</u>
<b>Operating (loss) profit before taxes</b>	<u>(13,597,088)</u>	<u>8,961,409</u>
<b>Withholding taxes/reclaims</b>	<u>23,889</u>	<u>44,852</u>
<b>(Decrease) increase in net assets attributable to holders of redeemable units from operations</b>	<u>\$ (13,620,977)</u>	<u>\$ 8,916,557</u>
<b>Weighted average number of units outstanding</b>	<u>11,080,158</u>	<u>12,259,664</u>
<b>(Decrease) increase in net assets attributable to holders of redeemable units from operations per unit <sup>(1)</sup></b>	<u>\$ (1.23)</u>	<u>\$ 0.73</u>

(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, 2022 and 2021

	2022	2021
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	\$ 54,575,953	\$ 53,380,267
<b>(Decrease) increase in net assets attributable to holders of redeemable units from operations</b>	(13,620,977)	8,916,557
<b>Redeemable unit transactions (note 7)</b>		
Reinvested distributions	137,324	159,906
Redemption of redeemable units	(3,470,336)	(6,421,958)
	(3,333,012)	(6,262,052)
<b>Distributions to holders of redeemable units:</b>		
Return to holders of redeemable units	(1,318,575)	(1,458,819)
<b>Net (decrease) increase in net assets attributable to holders of redeemable units for the year</b>	(18,272,564)	1,195,686
<b>Net assets attributable to holders of redeemable units, end of year</b>	\$ 36,303,389	\$ 54,575,953
<b>Distributions per unit</b>	\$ 0.12	\$ 0.12

See accompanying notes to financial statements.

# STATEMENTS OF CASH FLOWS

Years ended December 31, 2022 and 2021

	2022	2021
<b>Cash flows from (used in) operating activities</b>		
(Decrease) increase in net assets attributable to holders of redeemable units from operations	\$ (13,620,977)	\$ 8,916,557
Adjustments for:		
Net realized loss (gain) on sale of investments	1,652,575	(4,395,541)
Portfolio transaction costs	51,776	127,271
Foreign exchange (gain) loss on cash	(645,180)	146,485
Change in unrealized depreciation (appreciation) in value of investments	11,704,887	(5,608,793)
Purchases of investments	(30,210,915)	(97,173,498)
Proceeds from sale of investments	43,678,461	102,547,349
Decrease in dividends receivable	17,260	10,392
Decrease in other receivables	15,696	696
Decrease in management fees and investment management fees payable	(19,845)	(10,972)
Increase in accounts payable and accrued liabilities	3,081	41,807
	<u>12,626,819</u>	<u>4,601,753</u>
<b>Cash flows used in financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(1,190,251)	(1,310,826)
Amounts paid for redeemable units redeemed	(3,470,442)	(6,421,852)
	<u>(4,660,693)</u>	<u>(7,732,678)</u>
<b>Foreign exchange gain (loss) on cash</b>	645,180	(146,485)
Net increase (decrease) in cash	8,611,306	(3,277,410)
Cash, beginning of year	309,281	3,586,691
<b>Cash, end of year</b>	<u>\$ 8,920,587</u>	<u>\$ 309,281</u>
<b>Supplemental information</b>		
Dividends received, net of withholding taxes	\$ 408,193	\$ 770,210
Interest received, net of withholding taxes	144,531	—
Interest paid	(2,927)	(9,231)

See accompanying notes to financial statements.

## SCHEDULE OF INVESTMENTS

December 31, 2022

Number of shares	Investments owned	Average cost	Fair value	% of net assets
<b>CANADIAN EQUITIES</b>				
<b>Energy</b>				
15,185	Canadian Natural Resources Ltd. — CAD	\$ 1,073,110	\$ 1,141,760	3.1
13,575	Canadian Natural Resources Ltd. — USD	878,334	1,021,394	2.8
		1,951,444	2,163,154	5.9
<b>Information Technology</b>				
405	Constellation Software Inc.	879,363	856,154	2.4
4,393	Topicus.com Inc.	523,389	312,298	0.9
		1,402,752	1,168,452	3.3
<b>Financial Services</b>				
8,426	goeasy Ltd.	1,253,251	896,948	2.5
<b>Real Estate</b>				
29,382	DREAM Unlimited Corp.	739,222	747,184	2.1
<b>Consumer Discretionary</b>				
24,549	Linamar Corp.	1,473,878	1,504,854	4.1
<b>Consumer Goods and Services</b>				
26,396	Aritzia Inc.	1,283,577	1,249,851	3.4
10,749	Loblaw Cos Ltd.	863,893	1,286,870	3.5
		2,147,470	2,536,721	6.9
<b>TOTAL CANADIAN EQUITIES</b>		8,968,017	9,017,313	24.8
<b>U.S. EQUITIES</b>				
1,210	Adobe Inc.	691,701	551,741	1.5
10,603	Advanced Micro Devices Inc.	1,278,037	930,526	2.6
13,474	Alphabet Inc.	1,840,268	1,619,918	4.5
6,930	Apple Inc.	1,073,960	1,220,025	3.4
11,921	Blackstone Inc.	1,576,304	1,198,351	3.3
1,273	Dollar General Corp.	412,369	424,747	1.2
2,114	Domino's Pizza Inc.	1,048,071	992,222	2.7
3,874	Enphase Energy Inc.	983,489	1,390,804	3.8
8,732	Freeport-McMoRan Inc.	420,763	449,597	1.2
1,433	Mastercard Inc.	608,787	675,172	1.9
5,904	Microsoft Corp.	1,792,340	1,918,482	5.2
6,627	Procter & Gamble Co.	1,185,396	1,360,904	3.7

December 31, 2022

<b>Number of shares</b>	<b>Investments owned</b>	<b>Average cost</b>	<b>Fair value</b>	<b>% of net assets</b>
440	Regeneron Pharmaceuticals Inc.	\$ 387,483	\$ 430,139	1.2
2,416	SolarEdge Technologies Inc.	975,840	927,307	2.6
8,952	The Bank of New York Mellon Corp.	604,015	552,139	1.5
950	Thermo Fisher Scientific Inc.	675,338	708,854	2.0
1,952	UnitedHealth Group Inc.	1,362,622	1,402,262	3.9
1,192	Vertex Pharmaceuticals Inc.	407,470	466,412	1.3
1,785	Vulcan Materials Co.	428,564	423,521	1.2
	<b>TOTAL U.S. EQUITIES</b>	17,752,817	17,643,123	48.7
	<b>INTERNATIONAL EQUITIES</b>			
8,343	Shell PLC	603,627	643,787	1.8
3,711	Taiwan Semiconductor Manufacturing Co. Ltd.	534,280	374,554	1.0
	<b>TOTAL INTERNATIONAL EQUITIES</b>	1,137,907	1,018,341	2.8
	Transaction costs	(7,100)	—	—
	<b>Total investments</b>	<u>\$ 27,851,641</u>	27,678,777	76.3
	<b>Other assets, net of liabilities</b>		8,624,612	23.7
	<b>Net assets attributable to holders of redeemable units</b>		\$ 36,303,389	100.0

See accompanying notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

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## 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 30, 2023.

## 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 at least \$400 million.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”).

### (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 measurement category. The Fund measures at FVTPL all financial assets currently held at fair value. Debt securities are measured at FVTPL under IFRS 9

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

Financial Instruments 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 appreciation (depreciation) in value of 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, "Investment Funds".

The fair 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.

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

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As at December 31, 2022 and 2021, 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 weighted average Units outstanding for the years.

## **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.

As at December 31, 2022, the Fund had non-capital losses of approximately \$835,833 (2021 — nil) that will start to expire in 2042, and the Fund had capital losses of approximately \$1,390,659 (2021 — \$33,361) which can be carried forward indefinitely for offset against capital gains in future years.



# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

## 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, 2022 and 2021:

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

<b>2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTPL:				
Equities	\$54,555,561	\$—	\$—	\$54,555,561

There were no transfers between levels during the years ended December 31, 2022 and 2021.

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, 2022 and 2021, the Fund had no securities that were classified as Level 3 financial instruments.

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

## 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, 2022 and, 2021:

### (b) Units issued and outstanding:

	2022	2021
Units, beginning of year	11,143,581	12,334,869
Issued under distribution reinvestment plan	51,895	50,056
Units redeemed	(951,850)	(1,241,344)
Units, end of year	10,243,626	11,143,581

Unitholders are entitled to retract their Units outstanding on the 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 Fund did not repurchase any Units for cancellation during the years ended December 31, 2022 and 2021.

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 2022, 891,432 Units (2021 – 1,233,303) were redeemed in the amount of \$3,311,759 (2021 – \$6,394,306).

### (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.

## 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, 2022, management fees totaled \$481,735 (2021 – \$625,946), of which \$35,962 was payable as at December 31, 2022 (2021 – \$50,883).

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

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, 2022, investment management fees totaled \$158,973 (2021 — \$206,566), of which \$11,868 was payable at December 31, 2022 (2021 — \$16,792).

Administrative expenses for the year ended December 31, 2022 totaled \$462,966 (2021 — \$497,961). 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. For the year ended December 31, 2022, fees in the amount of \$173,514 (2021 — \$321,059) 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, 2022, 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) \$1,260,949 (3% of NAV) (2021 — \$1,753,372, 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, 2022, the Fund invested 77.8% (2021 — 70.8%) of the net assets in U.S. currency. As at December 31, 2022, 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 \$1,412,631 (3.9% of NAV) (2021 — \$1,932,182, 3.5% 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, 2022, the Fund had 100% of the investment portfolio in equity securities (2021 — 100%). Cash and short-term investments earn minimal interest. As at December 31, 2022 and 2021, the majority of the Fund's financial assets and liabilities were non-interest bearing. As a result, the Fund is not subject to a significant amount of interest rate risk.

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

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## **(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 financial 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, 2022 (2021 — 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, 2022 and 2021, 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 was 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, 2022 and 2021, 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:

# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2022 and 2021

Sector	Percentage of net assets	
	2022	2021
Canadian equities:		
Pipeline/Energy investments	5.9	—
Materials	—	0.9
Telecommunications	—	—
Industrial	—	0.9
Information technology	3.3	5.3
Financial services	2.5	6.7
Real estate	2.1	3.9
Consumer Discretionary	4.1	—
Consumer goods and services	6.9	3.6
Utilities	—	1.0
Exchange traded fund	—	8.3
U.S. equities	48.7	65.5
International equities	2.8	3.9
Other assets, net of liabilities	23.7	—
	100.0	100.0

## 10. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS:

The brokerage commissions paid for the year ended December 31, 2022 were \$51,776 (2021 — \$127,271) of which soft dollar commissions were \$33,215 (2021 — \$84,396). Brokerage commissions are expensed and are included in transaction costs in the statements of comprehensive income.

## 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 of the Fund dated as of March 7, 2014.

## 12. INVESTMENT IN UNCONSOLIDATED STRUCTURED ENTITIES:

As of December 31, 2022, the Fund did not hold any Exchange Traded Fund ("ETF") (2021 — \$4,519,953). The Fund does not control or have significant influence over the ETF.

## CORPORATE INFORMATION

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### MANAGER/TRUSTEE

#### Artemis Investment Management Limited

1325 Lawrence Avenue East, Suite 200

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Telephone: 416-934-7455

Fax: 416-934-7459

Website: [www.artemisfunds.ca](http://www.artemisfunds.ca)

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### PORTFOLIO ADVISOR

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### AUDITOR

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### STOCK EXCHANGE

The Toronto Stock Exchange

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

### INDEPENDENT REVIEW COMMITTEE

Peter Chodos

John Mills

Michael Newman

### DIRECTORS OF THE MANAGER/TRUSTEE

Trevor Maunder – Director

Gavin Swartzman – Director

### OFFICERS OF THE MANAGER/TRUSTEE

Trevor Maunder – Chief Executive Officer,

Chief Financial Officer and Secretary

Sean Lawless – Chief Compliance Officer

### CUSTODIAN

#### RBC Investor Services Trust

155 Wellington Street West, 2 Floor

Toronto, Ontario M5V 3L3

### TRANSFER AGENT

#### TSX Trust Company

301-100 Adelaide Street West

Toronto, Ontario M5H 4H1



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