

CITADEL GROUP OF FUNDS

CITADEL GROUP OF FUNDS COMMENTARY ON TAX FAIRNESS PLAN

NOVEMBER 2, 2006

The Tax Fairness Plan

On October 31, 2006, the Minister of Finance announced the federal government's intentions to enact a Tax Fairness Plan. The goal of the Tax Fairness Plan is to "restore balance and fairness to the federal tax system by creating a level playing field between income trusts and corporations".

The principle method by which the federal government intends to level the playing field between income trusts and corporations is through the implementation of a special 31.5% tax on Distributed Trust Earnings. Distributed Trust Earnings will essentially be that portion of a trust's distributions generated from either carrying on a business in Canada or from non-portfolio properties that would have been characterized as the taxable portion of the distribution in the hands of a taxable Canadian investor. For existing publicly traded trusts other than certain Real Estate Investment Trusts (which are exempt from the special tax), the special tax will be applied effective the trust's 2011 tax year.

That portion of the distribution from a trust that is characterized as Distributed Trust Earnings and paid to a taxable Canadian investor will be treated in the same manner as if the distribution were a taxable Canadian dividend. The distribution would also be an eligible dividend for the purposes of the enhanced dividend tax credit.

Impact on the Trust Market

As was seen on November 1, 2006, the trust market fell sharply. Even though the implementation of the Tax Fairness Plan has a number of hurdles to go through before becoming law and, for existing public trusts, the special tax on Distributed Trust Earnings will not take effect until 2011, the federal government has effectively halted trust conversions and eliminated the premium valuations being paid for trusts by foreign buyers and tax-exempt institutions. On November 1, 2006, the S&P/TSX Capped

Income Trust Index fell by in excess of 12%. We expect that the trust market will continue to be volatile in the coming days as analysts, investors and portfolio managers, review each trust and attempt to determine how much tax shelter each trust will have from 2011 forward and therefore what impact there will be on the future distributions from these trusts.

Impact on the Citadel Funds

What does this mean for the income trust funds within the Citadel Group of Funds?

No Double Taxation.

It appears that the Tax Fairness Plan will not impose any incremental tax at the fund of fund level. Accordingly, each Citadel Fund before and after 2011 will continue to be able to flow-through all trust distributions received by the Citadel Fund, without further taxes being levied.

Citadel's Distributions

Since the special tax on Distributed Trust Earnings will not be effective until 2011, we do not expect any near term reduction in the amount of distributions that each Citadel Fund would otherwise have been paid by the trusts in our income fund portfolios (and in turn paid out by our funds to our unitholders) had the Tax Fairness Plan not been announced.

It should also be noted that the vast majority of our investors are taxable Canadian residents and as a result of the dividend tax treatment of the portion of the trust's distributions that are Distributed Trust Earnings, from an income perspective and on an after-tax basis our unitholders who are taxable Canadian residents will be essentially no worse off.

As at the close of business on November 1, 2006 following the market revaluation, the current yield on the Citadel Funds increased significantly as can be seen below:

Citadel Fund	Market Price	NAV	Change in NAV¹	Current Distribution	Current Yield²
Citadel Diversified	\$9.30	\$10.85	(11.6%)	\$1.02	10.9%
Citadel S-1	\$13.02	\$15.38	(10.9%)	\$1.248	9.6%
Citadel HYTES	\$13.40	\$14.73	(14.0%)	\$1.68	12.5%
Citadel SMaRT	\$30.25	\$32.03	(10.0%)	\$3.36	11.1%
Series S1	\$8.75	\$9.97	(10.8%)	\$0.90	10.3%
Citadel Stable	\$7.95	\$8.36	(10.1%)	\$0.6996	8.8%
Energy Plus	\$8.88	\$8.87	(16.7%)	\$1.20	13.5%
Sustainable Production	\$7.30	\$6.92	(17.6%)	\$0.90	12.3%
Income & Equity	\$8.61	\$10.93	(11.1%)	\$0.90	10.5%
Equal Weight Plus	\$7.21	\$7.91	(13.6%)	\$0.84	11.7%
Citadel Premium	\$10.11	\$10.71	(12.7%)	\$1.02	10.1%

1. Percentage change in net asset value between Oct 26 and Nov 1, 2006.

2. Current monthly distribution times 12 divided by closing market price on November 1, 2006.

Commencing in 2011 however, the special tax on Distributed Trust Earnings is expected to reduce the level of distributions paid by certain trusts, with those trusts having little or no tax shelter being impacted the most. Prior to such time Citadel's independent portfolio managers will be diligently analyzing each trust's future tax shelter and increasing holdings in those trusts which are founded upon solid business models and that will be impacted the least from the new tax regime and which compare favorably when viewed using the valuation metrics of publicly traded corporate equity.

The Future

The government's announcement of the Tax Fairness Plan has had, and may continue to have, a significant negative impact on the wealth of all investors in the income fund market. At this time it is unknown if Canadians will or will not vote this government out of office prior to the implementation of the Tax Fairness Plan. If this happens the investment regime could change once again. Investment fundamentals however do not change. At Citadel all of our portfolio management teams will continue to focus their portfolios on investing in high-quality, well-managed businesses with strong balance sheets. This is where long-term value investments are found that will allow Citadel Funds to continue to meet their investment objectives well into the future.

For more information, contact Joe MacDonald, Executive Vice President, Sales and Marketing at 1-877-261-9674 or visit our website at www.citadelfunds.com.