

ANNUAL REPORT 2003

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Income & Equity Index Participation Fund

**Citadel**  
GROUP OF FUNDS



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# Message to Unitholders

We are pleased to report the 2003 results for the Citadel Group of Funds. Overall, it was a successful year for each of the Funds within the Citadel Group as each met or exceeded its investment objectives while at the same time minimizing investment risk to unitholders. During the year we introduced three new funds to our family of Funds, all designed to meet our unitholders' investment needs.

## The Citadel Group of Funds

The Citadel Group of Funds is an association of exchange traded mutual funds that share the common goal of delivering to unitholders the highest standard of performance, integrity and corporate governance. While each of the funds within the Citadel Group of Funds has differing investment objectives and structure, each utilizes the same team of experienced and dedicated officers and employees. The services of these officers and employees is made available to each fund through a cost sharing arrangement whereby each fund bears its share of the non-fund specific expenses of the group on a relative net asset value basis. Through this arrangement, unitholders of all funds benefit from a very experienced and efficient administration team, without paying the high management expense ratios that are often the case with many fund organizations.

2003 saw three new funds join the Citadel Group of Funds. The year began with Citadel Multi-Sector Income Fund joining the group after completing its initial public offering in February. This was followed later in the year by Series S-1 Income Fund in July and Citadel Income & Growth Fund in October. Each fund in the Citadel Group has its own unique characteristics, objectives and structure, and these new funds are no exception. Citadel Multi-Sector Income Fund was designed to maximize total unitholder return by rotating its investments between the various subsectors within the income fund and high yield debt sectors of the market as conditions warrant. Series S-1 Income Fund was designed to provide its unitholders with highly stable and sustainable monthly cash distributions derived from an actively managed SR-1 stability rated portfolio of income fund and high yield debt investments. Citadel Income & Growth Fund was designed to provide its unitholders with monthly cash distributions while maximizing total return through investment in growth oriented securities, including common shares.

Citadel Diversified Investment Trust	<a href="#">CTD.un</a>
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Citadel S-1 Income Trust Fund	<a href="#">SDL.un</a>
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Citadel HYTES Fund	<a href="#">CHF.un</a>
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Citadel SMaRT Fund	<a href="#">CRT.un</a>
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MYDAS Fund	<a href="#">MYFun</a>
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Citadel Multi-Sector Income Fund	<a href="#">CMS.un</a>
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Series S-1 Income Fund	<a href="#">SRC.un</a>
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Citadel Income & Growth Fund	<a href="#">CIF.un</a>
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Income & Equity Index Participation Fund	<a href="#">IEPun</a>
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### **Citadel's New Index Funds**

Up until the end of 2003, all of the funds within the Citadel Group were structured to combine an actively managed portfolio with a set of investment guidelines and restrictions designed to achieve a particular result for unitholders. In February 2004, the first passively managed index fund joined the Citadel Group. That fund, the Income & Equity Index Participation Fund, combines a portfolio comprising an equal weighted index of income funds with a capped call option on the S&P/TSX 60 Index. By combining investments in both the income fund index and the TSX 60 Index, unitholders participate in a balanced passive investment designed to deliver both income and capital appreciation.

### **Corporate Governance**

All of the funds within the Citadel Group of Funds maintain the highest level of corporate governance. Each fund is governed by a Board of Directors that consists of a majority of independent, unrelated and outside directors, none of whom have any economic interest in either our investment managers or Administrators. In addition, each Board has an Audit Committee consisting solely of independent, unrelated and outside directors and a Governance Committee consisting solely of outside directors. Each Board has reviewed the TSX Corporate Governance Guidelines and, where those guidelines are applicable to issuers having a structure like the Citadel Funds, those guidelines have been complied with. Please see our Statement of Corporate Governance Practices on page 6.

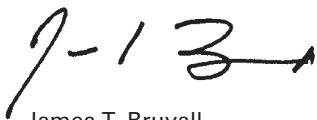
### **Our Commitment to our unitholders**

The funds that comprise the Citadel Group of Funds will at all times be administered and managed with the highest level of corporate governance and integrity. We will promptly and accurately respond to our unitholders questions and concerns. We look forward to continuing in our endeavours to deliver outstanding performance and returns to our unitholders in 2004.

If you are an investor in one of the Citadel Funds and want further information on any of the other funds within the Citadel Group, or have any suggestions as to how we can help serve our unitholders better, please visit our website at [www.citadelfunds.com](http://www.citadelfunds.com) or call us toll-free at 1.877.261.9674.

Please take the time to review this report in its entirety. We encourage you to discuss your investment in any of the Citadel Funds with your investment advisor or, for specific questions on our funds, please call us directly.

Thank you for your continued support and confidence.



James T. Bruvall  
Chief Executive Officer  
April 19, 2004

## Report Card on Performance

There are a number of ways of measuring the performance of an investment; however, in our view the most important is whether the investment achieved the performance thresholds or targets upon which that investment was marketed. In addition, you must consider the level of risk assumed by the investment in achieving those targets. In the case of each Citadel Fund, we believe that an acceptable performance level is one in which the fund achieves its stated investment objectives, while minimizing the risk to our unitholders' capital.

This chart is a report card on each Citadel Fund's performance and a commentary on the compliance by each fund with its investment objectives.

Fund	Investment Objectives
<b>Citadel Diversified Investment Trust</b>	Over the life of the trust, to: <ol style="list-style-type: none"> <li>1. Provide a high level of cash distributions; and</li> <li>2. Maximize net asset value.</li> </ol>
<b>Citadel S-1 Income Trust Fund</b>	Over the life of the trust, to: <ol style="list-style-type: none"> <li>1. Maintain an SR-1 stability rating;</li> <li>2. Provide a high level of cash distributions; and</li> <li>3. Maximize net asset value.</li> </ol>
<b>Citadel HYTES Fund</b>	To: <ol style="list-style-type: none"> <li>1. Provide a stable, sustainable and predominantly tax deferred targeted monthly distribution of \$0.26 per unit; and</li> <li>2. Return each unitholder's original investment of \$25.00 per unit on termination of the Trust.</li> </ol>
<b>Citadel SMaRT Fund</b>	To: <ol style="list-style-type: none"> <li>1. Return each unitholder's original investment of \$25.00 per unit on termination of the Trust;</li> <li>2. Provide a tax advantaged monthly distribution, initially targeted at \$0.208 per unit; and</li> <li>3. Distribute to unitholder's the amount of the Trust's assets in excess of original investment of \$25.00 per unit on termination of the Trust.</li> </ol>
<b>MYDAS Fund</b>	To: <ol style="list-style-type: none"> <li>1. Provide a stable tax effective monthly distribution of \$0.1875 per unit; and</li> <li>2. Return at least the original investment of \$25.00 per unit to unitholders on termination of the Trust.</li> </ol>
<b>Citadel Multi-Sector Income Fund</b>	To: <ol style="list-style-type: none"> <li>1. Provide a stable, tax effective monthly distribution initially targeted at \$0.0833 per unit; and</li> <li>2. Return at least the original investment of \$10.00 per unit to unitholders on termination of the Trust.</li> </ol>
<b>Series S-1 Income Fund</b>	To maximize total return by balancing the following objectives: <ol style="list-style-type: none"> <li>1. Provide a highly stable and sustainable monthly distribution initially targeted at \$0.075 per unit;</li> <li>2. Maintain an SR-1 stability rating for the Trust; and</li> <li>3. Return at least the original investment of \$10.00 per unit to unitholders on termination of the Trust.</li> </ol>
<b>Citadel Income &amp; Growth Fund</b>	To utilize a portfolio comprised of at least 50% income funds and the balance other equities, to: <ol style="list-style-type: none"> <li>1. Provide unitholders with income from distributions received from the portfolio; and</li> <li>2. Generate capital appreciation within the portfolio.</li> </ol>

	<b>Targeted Annual Distribution</b>	<b>2003 Actual Distribution</b>	<b>2003 Net Asset Value Growth</b>	
	Not specified. Currently \$0.08 per unit per month	\$0.96 per unit representing a 9.2% trailing yield	\$1.16 per unit, a gain of 12%	
	Not specified. Currently \$0.208 per unit per month	\$2.496 per unit representing an 8.8% trailing yield	\$4.19 per unit, a gain of 16%	
	\$3.12 per unit	\$3.14 per unit representing a 10.5% trailing yield	\$4.65 per unit, a gain of 17%	
	\$2.496 per unit	\$2.496 per unit representing an 8.8% trailing yield	\$3.66 per unit, a gain of 14%	
	\$2.25 per unit	\$2.414 per unit representing a 9.2% trailing yield	\$2.99 per unit, a gain of 12%	
	\$0.9996 per unit, commencing April 2003	\$0.7497 per unit, being an annualized equivalent of \$0.9996 per unit	\$1.06 per unit, a gain of 11%	
	\$0.90 per unit, commencing September 2003	\$0.375 per unit, being an annualized equivalent of \$0.90 per unit	\$1.12 per unit, a gain of 12%	
	Announced annually. Currently \$0.0708 per unit per month	\$0.1416 per unit, being an annualized equivalent of \$0.8496 per unit	\$0.78 per unit, a gain of 8%	

Comments	2003 Total Unitholder Return <sup>(1)</sup>
<p>All investment objectives were met, while at the same time Diversified reduced investment risk by maintaining an 18% cash position in 2003.</p> <p>With a December 31, 2003 net asset value of \$10.77 per unit and total per unit distributions since inception of \$5.862, Diversified has succeeded in striking a balance between its competing investment objectives.</p>	<b>25.5%</b>
<p>S-1's SR-1 stability rating was confirmed again in 2003 and all other investment objectives required to be met in 2003, were met. S-1 also reduced investment risk by maintaining a 5% cash position in 2003.</p> <p>With a December 31, 2003 net asset value of \$30.18 per unit, S-1 is on track to maximize its net asset value over its 10 year term (expiring 2010).</p>	<b>10.7%</b>
<p>Substantially all investment objectives required to be met in 2003 were met, while at the same time HYTES reduced investment risk by maintaining an 11% cash position in 2003. The Fund's one shortfall was the amount of its distribution tax deferral in 2003. As a result of realizing substantial capital gains, HYTES tax deferral rate, at only 12.3%, did not satisfy its objective of having a predominantly tax deferred yield for 2003.</p> <p>With a December 31, 2003 net asset value of \$31.48 per unit, HYTES is on track to be able to return at least \$25.00 per unit to unitholders on termination of the Trust in 2011.</p>	<b>25.3%</b>
<p>All of SMaRT's investment objectives required to be met in 2003, were met. With a distribution tax deferral rate of 46.5%, SMaRT's 2003 distributions were tax advantaged.</p> <p>With a December 31, 2003 net asset value of \$30.35 per unit, SMaRT is on track to be able to return both unitholder's original investment of \$25.00 per unit and the amount of its assets in excess of \$25.00 per unit, on termination of the Trust in 2013.</p>	<b>20.3%</b>
<p>All of MYDAS's investment objectives required to be met in 2003, were met. With a distribution tax deferral rate of 23.3%, MYDAS's 2003 distributions were tax effective. In addition, MYDAS reduced investment risk by maintaining a 16% cash position in 2003.</p> <p>With a December 31, 2003 net asset value of \$27.56 per unit, MYDAS is on track to be able to return at least the original investment of \$25.00 per unit to unitholders, on termination of the Trust in 2007.</p>	<b>18.9%</b>
<p>All of Multi-Sector's investment objectives required to be met in 2003, were met. With a distribution tax deferral rate of 49.4%, Multi-Sector's 2003 distributions were tax effective. In addition, Multi-Sector reduced investment risk by maintaining a 17% cash position in 2003.</p> <p>With a December 31, 2003 net asset value of \$10.51 per unit, Multi-Sector is on track to be able to return at least the original investment of \$10.00 per unit to unitholders, on termination of the Trust in 2008.</p>	<b>8.9%</b> (10.5 months)
<p>Series S-1's SR-1 stability rating was confirmed following its initial public offering in July, 2003 and all other investment objectives required to be met in 2003, were met. Series S-1 reduced investment risk by maintaining a 10% cash position in 2003.</p> <p>With a December 31, 2003 net asset value of \$10.57 per unit, Series S-1 is on track to be able to return at least the original investment of \$10.00 per unit to unitholders, on termination of the Trust in 2009.</p>	<b>11.1%</b> (6.5 months)
<p>All of Income &amp; Growth's investment objectives required to be met in 2003, were met. In addition, Income &amp; Growth reduced investment risk by maintaining a 24% cash position in 2003.</p> <p>With a December 31, 2003 net asset value of \$10.22 per unit, Income &amp; Growth has generated 8% capital appreciation within its portfolio over the first 2.5 months of its 6.5 year term.</p>	<b>7.6%</b> (2.5 months)

(1) Year-over-year change in market price of units plus distribution reinvestment.

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## Statement Of Corporate Governance Guidelines

Each Fund that is a member of the Citadel Group of Funds is administered by a separate Administrator. Each Administrator has a Board of Directors currently consisting of the same individuals. Those Administrators and their Boards of Directors have adopted the following corporate governance practices:

TSE Guidelines For Effective Corporate Governance	Do the Citadel Funds Comply?	Comments
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, including:	Yes	Each Fund within the Citadel Group of Funds has appointed a separate Administrator pursuant to an Administrative Services Agreement. Under the terms of the Administrative Services Agreement, the Administrator so appointed has been granted the exclusive authority to manage and administer the business and affairs of the Fund. The Board of Directors of each Administrator oversees and supervises the management and administration of the applicable Fund. Pursuant to the terms of a Unanimous Shareholder Agreement, a majority of the directors of each Administrator are appointed to act on behalf, and in the best interests, of the unitholders of the Fund.
(a) the adoption of a strategic planning process;	Yes	The principal mandate of the Board of each Administrator is to oversee the management of the business and affairs of the Fund that it administers. While the leadership for the strategic planning process comes from the management of the Administrator, the Board's mandate is to bring objectivity and a breadth of judgment to the strategic planning process and to ultimately approve the strategy developed by management as it evolves.
(b) the identification of the principal risks of the Corporation's business and the implementation of appropriate systems to manage these risks;	Yes	The principal risks of all aspects of the business of the Fund are annually set out in each Fund's Annual Information Form. The Board ensures that systems are in place to effectively monitor and manage risks with a view to the long-term performance of the Fund, and conducts an annual review of the associated risks.
(c) succession planning, including appointing, training and monitoring senior management;	Yes	The Board of each Administrator takes ultimate responsibility for the appointment and monitoring of both the senior management of the Administrator and each Fund's Investment Manager. The Board considers succession issues, both at the Administrator level and at the Investment Manager level for each Fund and ensures that succession plans are consistent with each Fund's needs.
(d) the Corporation's communications policy; and	Yes	Each Administrator has policies in place to ensure effective and timely communication and disclosure to the Fund's unitholders, other stakeholders and the public in general. The Board has the responsibility for ensuring compliance with these policies and that the financial performance of each Fund is reported to unitholders on a timely and regular basis. The Board reviews and approves all of the Fund's major disclosure documents.
(e) the integrity of the Corporation's internal control and management systems.	Yes	The Board of each Administrator ensures that each Administrator and Fund has in place effective control and information systems so that it can track those criteria needed to monitor compliance with each Fund's investment objectives. Each Administrator and Fund has an audit system, which can inform the Board of the integrity of the data and compliance of the financial information with generally accepted accounting principles.

<b>TSE Guidelines For Effective Corporate Governance</b>	<b>Do the Citadel Funds Comply?</b>	<b>Comments</b>
2. & 3. The Board should be constituted with a majority of individuals who qualify as unrelated directors. An analysis of the qualification of the directors as unrelated should be disclosed annually.	Yes	The Board of each Administrator consists of five members. Three of the five directors of each of the Administrators are "unrelated" directors as defined by the TSX, being a director who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Fund, other than interests and relationships arising from being a shareholder. Of the five directors, only one, James Bruvall, is a member of management. As Chief Executive Officer of each Administrator, James Bruvall is considered an "inside" and "related" director. Kent MacIntyre is the majority interest holder in each of the Fund's Administrative Services Agreements and as such is considered a "related" director.
4. The Board should appoint a committee of directors composed exclusively of outside i.e. non-management directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.	Yes	The Board of each Administrator has appointed a Governance Committee, comprised of Harold Milavsky, Doug Baldwin, Paul Waitzer and Kent MacIntyre. All members are outside directors. The Governance Committee has amongst its mandates to generally assess, establish and develop a process for identifying, recruiting, appointing, re-appointing and providing ongoing development of members of the Board.
5. The Board should implement a process to be carried out by the Nominating Committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.	Yes	The Governance Committee has the responsibility for the evaluation of the performance of the Board of each Administrator as a whole and the evaluation of the performance of the committees of the Board. This committee also annually assesses and makes recommendations as to the structure and composition of each of the committees of the Board and reviews and makes recommendations as to the terms of reference of the committees of the Board.
6. The existence of an orientation and education program for new recruits to the Board.	Yes	While the Administrators do not currently have a formal orientation and education program for new recruits to the Boards, the Administrators have historically provided such orientation and education on an ad hoc basis.
7. The size of the Board and the impact of the number of directors upon the Board's effectiveness.	Yes	The Board considers that five members is currently an appropriate number of directors, having regard to the nature of the business of the Administrators and the governance structure of the Funds and the experience and expertise required to carry out their duties effectively while maintaining a diversity of view and experience.
8. The adequacy and form of compensation of directors should realistically reflect the responsibilities and risk involved in being an effective director.	Yes	The Board has appointed a Governance Committee comprised of Harold Milavsky, Doug Baldwin, Paul Waitzer and Kent MacIntyre. The Governance Committee has amongst its mandates to review and make recommendations as to the adequacy and form of directors' compensation provided by the Administrators to ensure it reflects the responsibilities and risks of membership on the Board and participation on committees of the Board.
9. Committees of the Board should generally be composed of outside directors, a majority of whom are unrelated directors.	Yes	The Board has constituted two committees: the Governance Committee and the Audit Committee. All of the members of each of the Board's committees are outside directors and all are unrelated except one member of the Governance Committee.
10. The Board's responsibility for (or a committee of the Board's general responsibility for) developing the Corporation's approach to governance issues.	Yes	The Board has appointed a Governance Committee comprised of Harold Milavsky, Doug Baldwin, Paul Waitzer and Kent MacIntyre. The Governance Committee has amongst its mandates to review and advance the governance of each Administrator and Fund and ensure that each maintains a culture of good governance practice.

TSE Guidelines For Effective Corporate Governance	Do the Citadel Funds Comply?	Comments
<p>11. The Board has developed:</p> <p>(a) position descriptions for the Board and for the CEO, involving the definition of the limits to management's responsibilities; and</p> <p>(b) the corporate objectives for which the CEO is responsible for meeting.</p>	Yes	<p>The Board retains all powers not delegated by the Board to management or Board Committees. The CEO's responsibilities and performance are reviewed annually. The CEO is accountable to the Board for meeting corporate objectives and for managing the day-to-day business of each Administrator, subject to compliance with plans and objectives approved from time to time by the Boards.</p> <p>The corporate objectives of the CEO include monitoring each Fund's Investment Manager, monitoring the compliance of each Fund with its investment objectives, implementing the business plan for each Administrator that is reviewed annually by the Board pursuant to the Board's strategic planning process, developing and staffing each Administrator's management structure and providing effective communication between the Board, management and unitholders.</p>
<p>12. The structures and procedures ensuring that the Board can function independently of management.</p>	Yes	<p>All Board members except one are outside directors. At each meeting of the Board the outside directors hold an in camera session without management present to discuss various matters, including the performance of management and the independent functioning of the Board.</p>
<p>13. (a) the Audit Committee of the Board should be composed only of outside directors;</p>	Yes	<p>The Corporation's Audit Committee is comprised of Harold Milavsky, Doug Baldwin and Paul Waitzer, all of whom are unrelated and outside directors and all of whom are financially literate and have financial expertise.</p>
<p>(b) the roles and responsibilities of the Audit Committee should be specifically defined;</p>	Yes	<p>The Audit Committee meets at least four times annually. The Audit Committee has amongst its mandates to assist the Board in fulfilling its oversight responsibilities in respect of the adequacy, integrity and effectiveness of each Fund's financial reporting process and financial statements, including without limitation the adequacy, integrity and effectiveness of internal financial and management controls and systems; and the adequacy and integrity of the audit process.</p>
<p>(c) the Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate; and</p>	Yes	<p>The Audit Committee and auditors each have direct communication with the other. The Audit Committee also reviews with management and the auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting; separately interviews management and the auditors regarding significant financial reporting issues during the fiscal period and the method of resolution; and reviews any problems experienced by the auditors in performing the audit, including any restrictions imposed by management or significant accounting issues in which there was a disagreement with management.</p>
<p>(d) the Audit Committee's duties should include oversight responsibility for management reporting on internal controls and should ensure that management has designed and implemented an effective system of internal controls.</p>	Yes	<p>The Audit Committee reviews and makes recommendations with respect to information and control systems of each Administrator and Fund; and reviews and approves all major changes to information and control systems of each Administrator.</p>
<p>14. The existence of a system which enables an individual director to engage an outside advisor at the Corporation's expense in appropriate circumstances.</p>	Yes	<p>The Board as a whole, any committee of the Board, the independent directors as a group or any single director may engage outside advisors at the expense of the Funds, subject to approval of the Governance Committee.</p>

# Report of the Investment Manager

## The Market

In 2003, the Canadian economy rolled along like a giant roller coaster. In the first quarter, the Canadian economy was on wheels as final domestic demand climbed at an annual rate of 5%. We produced the strongest start of all G7 nations. Auto and industrial production led the way. The Canadian dollar soared in value. Growth was so strong that the Bank of Canada moved the key interest rate up twice to rein in the expansion.

Unfortunately, then came the influences of the impact of a strengthening dollar paired with the outbreak of SARS. Growth tumbled in the second and third quarters. So sudden was the deceleration that many thought the economy would slide into a recession. The Bank of Canada reversed its previous rate hikes in an attempt to ease the decline. Fortunately, at this time the U.S. economy began to spring to life. The U.S. consumer had been keeping their economy afloat until business capital spending began to recover sharply in the third quarter. This U.S. led growth spilled over to Canada and we too began to recover in the fourth quarter.

However, during 2003 investors seemed to be ignoring these economic results. The general stock market, as measured by the S&P/TSX Composite Index, reached its lows of the year in March – just as our economic numbers were peaking. From the March lows to year end the general market rallied over 30%, providing the first positive annual return since 2000.

## The Income Trust Market

Marching to a similar tune, it was another stellar year for the income trust market – the fourth in a row. Not only did the market increase by \$39 billion of market capitalization and 35 new trusts, but the profile of the sector rose dramatically. The return, as measured by the S&P/TSX Composite Income Trust Index, was an outstanding 38.3%. Cumulatively, the Income Trust Index has outperformed the general stock market, as measured by the S&P/TSX Composite Total Return Index, by 24.3% per year for the past four years. Such a discrepancy in returns has not been witnessed since the inflation of the tech bubble in the late 1990's. The main driver of this divergence was the oil and gas royalty trust sector. First, royalty trusts comprised an overwhelming 48% of the Income Trust Index. Second, the royalty trust sector index returned a “whopping” 46.4% in 2003.

The remaining sectors in the income trust market also performed very well in 2003. Interestingly however, it appears that multiple expansion was the major component behind these stellar returns, rather than increasing distributions. This result suggests that fund flows into the market, rather than fundamentals, drove this market higher. Investor demand has turned a fundamental market into a momentum driven market. Yields compressed during 2003 by an average of 200 basis points. Given the relatively small change in distributions from the end of 2002, it appears that investors were not chasing a rising cash flow profile, but rather revaluing those cash flows.

## Oil & Gas Royalty Trusts (26 trusts with a market value of \$28.1 billion at December 31, 2003)

As mentioned above, the oil and gas royalty trust sector had an outstanding year producing a one-year return of 46.4% which in turn created a five-year annual return of 36.6% for this sector. The main thrust behind the returns in 2003 was the price of oil and natural gas. The main benchmark for oil is the West Texas Intermediate price (WTI) which is quoted in U.S. dollars. WTI started 2003 at prices over \$30 U.S. per barrel and averaged \$31 U.S. for the year. In the past 5 years, WTI prices tripled resulting in greater distributions for unitholders and rising unit prices. Natural gas prices (in U.S. dollars) also remained high in 2003, tripling in the past 5 years.

Historically, unit price appreciation accounts for approximately one fifth of the overall return while, in 2003, it accounted for over one half of the return.

Going forward, investors need to be extremely careful. Year-end royalty trust prices were very high, resulting in extreme valuations. On average, royalty trusts were trading at significant premiums to their net asset values (NAV) and multiples to cash flows. These prices resulted in royalty trusts trading at low cash-on-cash yields of less than 15% and at internal rates of return of less than 5%. In order to pay these prices for royalty trust units, an investor must believe that oil and gas prices are going even higher. We believe that in 2004 the risks of unit prices dropping far exceeds the likelihood that they will continue to

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rise and therefore, we are substantially underweight royalty trusts. Another factor influencing royalty trusts prices was major demand for Canadian royalty trust units that developed last year from U.S. investors looking for notionally high returns.

#### **Real Estate Investment Trusts (“Reits”) (24 trusts with a market value of \$13.3 billion at December 31, 2003)**

Reits posted another solid year of investment performance. The S&P/TSX Canadian Reit Index posted a total return of 25.9%. Over the prior five years, the S&P/TSX Reit Index generated a compound annual return of 19.6%. Reit performance has been aided by low long-term interest rates, generally healthy real estate industry fundamentals (though eroding since 2001 in the office sector), growing income and gradually rising distributions.

In 2003, the best performing sectors were office and apartments while the weakest was recorded in the hotels. The Canadian lodging industry experienced significant year-over-year deterioration in revenue per available room and profitability due mainly to adverse effects on leisure and business travel from the SARS outbreak last spring. To a lesser extent, the combined effects of the war in Iraq, curtailed flights due to airline industry financial problems, a high Canadian dollar and economic uncertainties also hurt the industry. Apartment Reits were faced with a substantial increase in vacancies due to first time home buyers being able to afford homes financed by 40-year low mortgage rates.

On balance, the 2003 performance of Reits exceeded our return expectations. However, in our view the group’s average valuation is now over a 17% premium to NAV compared to 6% premium a year earlier. Cash flows in the sector grew marginally in 2003 for Reits other than hotels. Hotels experienced negative growth. Most of the positive growth that was experienced came from acquisitions and little emanated from internal expansion. Going forward, Reits face difficult growth prospects as record high real estate prices make accretive acquisitions more difficult.

With the expectation of a better economy and therefore possibly higher interest rates one year out, we suggest that investors pay attention to their mix of cyclically exposed Reits. Currently we see both lodging and office sectors as having cyclical recovery potential. The retail sector appears to be stable. Industrial and apartment markets could be headed for a slightly softer 2004.

#### **Income Funds (85 funds with a market value of \$41.2 billion at December 31, 2003)**

For the second consecutive year, this sector of the trust market underwent the greatest expansion during 2003 in both number of new trusts and size of market capitalization. The business trust arena has broadened significantly to include industries such as resources, power generation, pipelines, utilities, industrial production and a wide array of consumer goods companies. In 2003, cyclical industrial trusts outperformed less economically sensitive sectors, such as power generation and consumer goods. The discovery of mad cow disease negatively impacted trusts in the meat processing arena, such as Specialty Foods and Menu Foods. Meanwhile, service providers to the oil and gas industry, namely Trinidad Energy Services and CCS Income Fund, produced total returns in excess of 50% during the year.

With the business trust sector being so broad, we expect 2004 returns to be very issuer specific. Caution should therefore be exercised in determining the correct mix of investments in this sector.

### **The Citadel Funds**

In general, while we continued to maintain a somewhat high level of cash in 2003, we were certain that portfolio investments would produce more than sufficient income and capital gains to meet the Funds’ monthly distributions. Our conservative stance was taken as valuations in the income fund world continued to reach higher levels, and is a measure of our desire to not just produce yield for unitholders, but also to protect capital. This approach led to returns which lagged the market in the short term but should lead to superior returns when valuations decline. We remain mindful that the majority of the Funds’ unitholders are risk adverse investors and we respect this when making our investment decisions. We believe that over the longer term, our approach will lead to greater overall returns and less volatility in unit valuations.

Continuing with this philosophy, the Funds were also underweight oil and gas royalty trusts in 2003 – which detracted from the Fund’s overall performance in 2003, but in our view resulted in less investment risk for unitholders.

We did however increase our weighting in business trusts towards the end of 2003, believing the present economic environment and the risk of increasing short-term interest rates later this year will be more favourable for investments in business trusts.

### **Citadel Diversified Investment Trust**

The simple value added return of the change in NAV plus distributions was 21.8% for the year. The Fund was able to distribute \$0.96 per unit last year despite maintaining a high cash position throughout the year, closing the period with a 17.6% weighting in short-term money market securities. The above average returns experienced in the royalty trust sector caused us to become more cautious than we already were, and therefore capital gains were realized on many of the oil and gas holdings as we trimmed positions. The year end weighting in royalty trusts dropped from 25.4% in 2002 to 21.1% in 2003, the proceeds of which were reinvested in business trusts. New positions were established in ACS Media, Custom Direct, Fording Coal and Prizm Canadian, to name a few. Although the cash yield earned on the distributions is lower on business trusts than royalty trusts, the total return outlook is brighter for the business trust sector in the near term.

### **Citadel S-1 Income Trust Fund**

The assets in the Fund produced a simple value added return of 25.1% in 2003. Unfortunately, the TSX trading price of the Fund's units did not keep pace with the underlying assets and as a result, the total return based on the trading price was only 10.7%. During 2003, the portfolio successfully replaced all fixed income holdings (COPrS) with income trust investments while maintaining the Fund's SR-1 Stability Rating from Standard & Pools. Moreover, a significant portion of the Fund is now invested in stable, low volatility trusts, namely power generation, infrastructure and Reits. Conversely, only a small portion is held in volatile commodity orientated trusts, namely oil and gas royalty trusts and raw material trusts (mining, forest, etc.). While the Fund only partially participated in the significant returns in the royalty trust area, it is not overly exposed to the volatility of oil and gas prices either, in keeping with the conservative nature of the Fund's investment objectives.

### **Citadel HYTES Fund**

Being mindful of the higher risk nature of the Fund's investment objectives, the portfolio began the year with a 39.4% weighting in oil and gas. As the year progressed, this weight was reduced to 29.5% as profits were realized and positions were trimmed. This high, but still underweight position in the sector, helped produce a simple value added return for the Fund of 28.8% in 2003. In addition, a portion of the royalty trust proceeds was reinvested in business trusts, in names such as ACS Media, Cineplex Odeon, Prizm Canadian and Rogers Sugar. However, the majority of these sale proceeds were added to cash balances.

### **Citadel SMaRT Fund**

During the year, the SMaRT Fund assets had a simple value added return of 22.7%, while the S&P/TSX Royalty Trust Index produced a return of 46.4%. The Fund's use of the fixed portfolio for the capital guarantee (over 35% of the portfolio) caused SMaRT's overall performance to lag indices. During periods of rapidly rising prices, such as in 2003, the fixed portfolio will always cause the overall portfolio to lag. However, during periods of declining prices the fixed portfolio should be a large benefit – which is the objective of holding the guarantee. Apart from the early days of last year, the Fund held only small levels of cash during 2003 and finished the year with 1% in cash.

### **MYDAS Fund**

The Fund maintained a high cash level of 16% - 18% throughout the year. Notwithstanding this cash position, income from investments comfortably exceeded distribution requirements in the year and allowed the fund to pay special distributions. The Fund's simple value added return was 21.7% for 2003. Portfolio investments at year end were heavily weighted towards business trusts and underweight in the Reit and royalty trust areas. During the year, the Fund trimmed positions in several holdings where the price appreciation on the units encouraged us to protect capital and take profits. Capital gains were realized in Davis + Henderson, Heating Oil Partners, Livingston International and Provident Energy to name a few. Cash proceeds were used to initiate holdings in various other undervalued trusts, including Custom Direct, Fording Coal and Clearwater Seafood.

### **Citadel Multi-Sector Income Fund**

On February 14, 2003, Citadel Multi-Sector completed its initial public offering. The portfolio was invested and evolved over the balance of 2003. An initial weight of 40% was invested in business trusts which were reasonably valued at the time. Oil and gas and Reit holdings were added when individual valuations were deemed attractive. However, due to our valuation concerns overall in the royalty trust and Reit sectors, the year-end respective weights of 18.3% and 12.0% are considerably below the industry averages. Also in keeping with our conservative outlook, several convertible debentures were added; we believe these investments will outperform in declining equity price environments. The Fund's cash levels represented 16.5% of total investments at year end.

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**Series S-1 Income Fund**

On June 12, 2003, Series S-1 completed its initial public offering. The portfolio construction initially concentrated on acquiring the higher Standard & Poors stability-rated trusts. Therefore, the year-end positions in power trusts and business trusts are in line with the initial weights envisioned during the marketing of the Fund. However, the portfolio is under invested in the oil and gas and Reit sector and as a consequence holds 10.1% cash. Income from investments is ahead of prior expectations and we expect to more than achieve total income sufficient to pay the Fund's distributions.

**Citadel Income & Growth Fund**

On October 16, 2003, Income & Growth Fund completed its initial public offering. By year end, the shaping of the portfolio was well underway. The Fund was an active participant in the initial public offering market in the fourth quarter when several good quality trusts were issued at fair prices. The growth component of the Fund's objectives has led us to invest 14.7% in oil and gas trusts which is in line with the initial model portfolio. Furthermore, holdings in cyclical material and energy service trusts were also added with the growth objective in mind. At year end, the cash level was 24.2% and we continue to seek attractive investments to add to the portfolio given the market's current valuation.

**Outlook**

We continue our conservative stance for 2004. Our outlook over the next 12 months expects returns to come from distributions and not from capital appreciation. Essentially we see 2004 as a period for NAV's to catch up or close the gap on unit prices. The major risk to the sector is a combination of a booming stock market and rising interest rates, though the strong stock market in 2003 did nothing to hinder income fund returns.

The one main positive note for the sector remains Ontario Bill 35 regarding limited liability protection for unitholders. We expect Bill 35 will receive the support necessary to become law, and that once legislation is passed in Ontario, other provinces will likely follow suit. We believe the resolution of the limited liability issue may broaden the income trust investor base and is a crucial step toward the inclusion of income trusts in the S&P/TSX Composite Index. Additional demand for trust units from institutional investors, may provide incremental momentum to an already expensive sector.

In conclusion, we do believe that while valuations of income trusts are very extended, prices will only start to decline once the flow of funds into the sector slows down as the fear of higher interest rates affects the retail investor. Make no mistake, the income trust sector is at present a momentum and not a value driven sector reminiscent of the general market in 1999.



M. Paul Bloom  
Bloom Investment Counsel, Inc.  
March 8, 2004



C. Barbara Smith

## Administrators

Each Fund within the Citadel Group of Funds shares the same management team. Each of the Funds subsequent to Citadel Diversified have agreed, in exchange for the right to use the "Citadel" name and the right to use the infrastructure created by Citadel Diversified, to contribute amounts to the aggregate overhead of the Funds. Citadel Diversified Management Ltd. ("CDML") is the administrator of Citadel Diversified Investment Trust, Citadel S1 Management Ltd. ("CSML") is the administrator of Citadel S-1 Income Trust Fund, Citadel TEF Management Ltd. ("CTEF") is the administrator of Citadel HYTES Fund, Citadel CPRT Management Ltd. ("CPRT") is the administrator of Citadel SMaRT Fund, MYDAS Management Inc. ("MMI") is the administrator of MYDAS Fund, Citadel Multi-Sector Management Inc. ("CMSI") is the administrator of Citadel Multi-Sector Income Fund, Citadel Series Management Ltd. ("SML") is the administrator of Series S-1 Income Fund and Citadel IG Management Ltd. ("CIGM") is the administrator of Citadel Income & Growth Fund. CDML, CSML, CTEF, CPRT, MMI, CMSI, SML and CIGM provide administrative services to their respective Funds and carry out all of the day to day operations of each Fund, other than investment advisory and portfolio management activities. The directors and officers of CDML, CSML, CTEF, CPRT, MMI, CMSI, SML and CIGM are as follows:

**Harold P. Milavsky** <sup>(1) (2)</sup>

Chairman of the Board  
Calgary

**Paul L. Waitzer** <sup>(1) (2)</sup>

Director  
Toronto

**Doug D. Baldwin** <sup>(1) (2)</sup>

Director  
Calgary

**Kent J. MacIntyre** <sup>(2)</sup>

Director  
Calgary

**James T. Bruvall**

Director and  
Chief Executive Officer  
Calgary

**Darren K. Duncan**

Chief Financial Officer  
Calgary

<sup>(1)</sup> Audit Committee member

<sup>(2)</sup> Governance Committee member

## Investment Manager

Bloom Investment Counsel, Inc. ("Bloom") is the investment advisor and portfolio manager for each actively managed Fund within the Citadel Group of Funds. Bloom is responsible for implementing each Fund's investment strategy and determines the ongoing commodity, industry and geographic weighting of securities in each Fund's portfolio. In accordance with Bloom's active management philosophy, Bloom continually reviews each Fund's portfolio to ensure that the portfolio meets the investment guidelines of the Fund, while balancing the sometimes divergent goals of delivering income and protecting capital.

Bloom Investment Counsel, Inc. commenced business in 1985 and specializes in the management of segregated investment portfolios for wealthy individuals, their retirement plans, corporations and trusts.

The principal officers and consultants of Bloom which provide investment advisory, research and portfolio management services to each Fund are as follows:

**M. Paul Bloom**

President  
Toronto

**C. Barbara Smith**

Vice-President  
Toronto

**Sara Bloom**

Vice-President  
Toronto

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# Citadel Diversified Investment Trust

<b>Stock symbol</b>	<b>CTD.un (TSX)</b>
<b>2003 High/Low</b>	<b>\$10.50 - \$8.85</b>
<b>2003 Distribution</b>	<b>\$0.96 per unit</b>
<b>2003 Taxable Portion</b>	<b>62.0%</b>
<b>2003 Total Return</b>	<b>25.5%</b>
<b>2003 Management Expense Ratio</b>	<b>1.8%</b>

Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified") is a closed-end investment trust listed on the Toronto Stock Exchange under the symbol "CTD.un". The Fund has a termination date of December 31, 2012 or such earlier or later date as the unitholders may determine in accordance with the Declaration of Trust.

Citadel Diversified's investment objectives are to provide its unitholders with a high level of monthly distributions and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of oil and gas royalty trusts, real estate investment trusts, income funds and qualified limited partnerships.

Throughout 2003, the Fund maintained a conservative investment strategy as reflected in its relative overweight position in cash. With this strategy in mind, the Fund amended its distribution policy in April 2003 by moving to a normalized monthly distribution of \$0.08 per unit. Citadel Diversified paid total distributions of \$0.96 per unit during 2003 compared to \$1.00 per unit during 2002. In 2003, the Fund realized substantial capital gains of \$6.3 million, thus increasing the capital gains component of its distributions for tax purposes. For 2003, 37.0% of the distribution was other taxable income, 5.4% was dividend income, 42.8% was capital gains and 14.8% was return of capital. As a result of the significant capital gains component, the net effective current taxable portion of the 2003 distributions was approximately 62%. From the Fund's inception in September 1997 to December 2003, cash distributions of \$5.862 per unit have been paid to unitholders for an annual compounded rate of return of 13.2%.

<b>Investment Highlights</b>	2003				2002
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit <sup>(1)</sup>	\$ 10.77	\$ 9.94	\$ 9.88	\$ 9.48	\$ 9.61
Market Price per Unit <sup>(1)</sup>	\$ 10.45	\$ 9.62	\$ 9.68	\$ 9.30	\$ 9.20
Trading Premium (Discount)	(3.0%)	(3.2%)	(2.0%)	(1.9%)	(4.3%)
Quarterly Distributions per Unit	\$ 0.240	\$ 0.240	\$ 0.233	\$ 0.247	\$ 0.320
Trailing Yield	9.2%	10.8%	11.0%	11.4%	10.9%
Market Capitalization (\$ millions)	\$ 244.2	\$ 224.8	\$ 224.5	\$ 216.2	\$ 213.9

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

## Management's Discussion & Analysis

### Financial Results

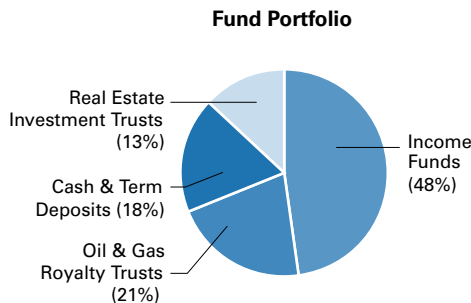
Citadel Diversified Investment Trust experienced significant growth in 2003, as improved market valuations in all sectors boosted net assets from \$223.5 million at the end of 2002 to \$251.8 million at the end of 2003. Net asset value per unit climbed from \$9.61 per unit on December 31, 2002 to \$10.77 per unit on December 31, 2003 on the strength in valuations of the general business income funds and oil & gas royalty trusts.

Total investment revenue increased from \$16.0 million in 2002 to \$23.8 million in 2003 with the increased asset base from the exchange offer and rights offer in 2002. Total administrative & investment manager fees, payable in units of the Fund, increased from \$2.7 million in 2002 to \$3.8 million in 2003 with the increased average net asset value of the Fund. General & administrative costs of \$0.5 million for 2003 decreased from \$0.6 million in 2002 as a result of economies from the addition of three new funds to the Citadel Group of Funds. Net investment income rose sig-

nificantly from \$12.7 million in 2002 to \$19.5 million in 2003. On a per unit basis, net investment income increased from \$0.73 per unit in 2002 to \$0.84 per unit in 2003 which generated total distributions in 2002 of \$1.00 per unit compared to \$0.96 per unit in 2003. Stronger net investment income, combined with realized gains of \$6.3 million and unrealized gains of \$23.6 million, pushed total results of operations to \$49.4 million (\$2.12 per unit) in 2003 compared to \$21.3 million (\$1.22 per unit) in 2002.

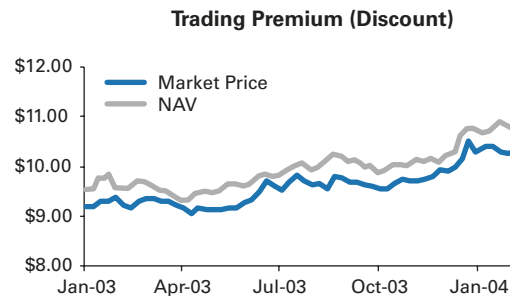
Citadel Diversified's market price also improved from \$9.20 per unit at December 31, 2002 to \$10.45 per unit at December 31, 2003. The Fund's unit price appreciation plus monthly distributions produced a 25.5% total return for 2003. By comparison, the S&P/TSX income trust index generated a 38.3% total return in 2003. Citadel Diversified's underperformance was attributable to its overweight position in cash and its underweight position in the top performing oil & gas royalty trusts. The Fund continued to take profits on various positions as valuations hit relative highs throughout the year in order to protect capital over the long term.

In 2003, the Fund reduced its weightings in oil & gas royalty trusts and Reits, while expanding its holdings in the general business trusts. Net additions, after realized dispositions, reduced cash reserves to 17.6% in 2003 compared to 20.5% in 2002. As at December 31, 2003, the Fund's portfolio based on market values is shown in the chart below.



**Trading Premium (Discount) to Net Asset Value**

Over the past year, the Fund's market price traded at an average discount to its net asset value per unit of 3.4% compared to an average discount of 0.9% in 2002. As a result, the Fund was required to repurchase 169,100 units under its mandatory repurchase program in 2003 compared to 240,907 units in 2002. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. The chart below reflects the Fund's net asset value per unit and market price over the past year.



**Risk Assessment**

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

**Outlook for 2004**

With inflation currently under control and interest rates expected to remain low, the economic environment is well suited for income trusts and we have a positive outlook for 2004. Although we do not expect to see the capital appreciation levels of 2003, distributions should remain stable at \$0.90 – \$1.00 per unit based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio. Citadel Diversified is currently well positioned with its significant cash reserves to take advantage of attractive investment opportunities as they arise over the balance of 2004.

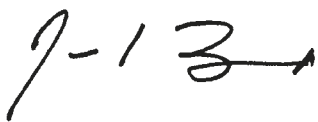
## Management's Responsibility Statement

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

CDML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CDML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

CDML, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel Diversified Management Ltd.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel Diversified Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Citadel Diversified Investment Trust

We have audited the statements of net assets and investments of Citadel Diversified Investment Trust as at December 31, 2003 and 2002, and the statements of operations and changes in net assets for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and 2002, and the results of its operations and the changes in its net assets for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

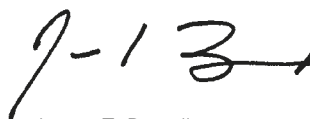
As at December 31,	2003	2002
<b>Assets</b>		
Investments, at market (cost: 2003 - \$169,464,331; 2002 - \$163,369,635)	\$ 205,041,348	\$ 175,366,771
Cash and term deposits	43,941,029	45,101,699
Prepaid expenses (note 4)	1,859,653	1,577,216
Revenue receivable	1,793,913	1,944,961
Note receivable (note 5)	1,021,617	2,194,245
	<u>253,657,560</u>	<u>226,184,892</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	21,374	362,023
Distributions payable	1,869,595	2,324,596
	<u>1,890,969</u>	<u>2,686,619</u>
<b>Net Assets representing Unitholders' Equity</b>	<u>\$ 251,766,591</u>	<u>\$ 223,498,273</u>
<b>Units outstanding</b> (note 3)	<u>23,369,936</u>	<u>23,245,956</u>
<b>Net asset value per unit</b>	<u>\$ 10.77</u>	<u>\$ 9.61</u>

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

Year Ended December 31,	2003	2002
<b>Revenue</b>		
Investment income	\$ 23,842,301	\$ 16,008,803
	23,842,301	16,008,803
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	3,835,339	2,728,581
General and administration costs	464,114	568,914
	4,299,453	3,297,495
<b>Net investment income</b>	19,542,848	12,711,308
<b>Net realized gain on sale of investments</b> (note 6)	6,250,456	9,204,941
<b>Net change in unrealized gain (loss) on investments</b>	23,579,879	(619,381)
<b>Total results of operations</b>	\$ 49,373,183	\$ 21,296,868
<b>Results of operations per unit</b> <sup>(1)</sup>		
Net investment income	\$ 0.84	\$ 0.73
Net realized gain on sale of investments	0.27	0.53
Net change in unrealized gain (loss) on investments	1.01	(0.04)
	\$ 2.12	\$ 1.22

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

## Statement Of Changes In Net Assets

Year Ended December 31,	2003	2002
<b>Net Assets – beginning of year</b>	\$ 223,498,273	\$ 123,922,878
Operations:		
Net investment income	19,542,848	12,711,308
Net realized gain on sale of investments	6,250,456	9,204,941
Net change in unrealized gain (loss) on investments	23,579,879	(619,381)
	49,373,183	21,296,868
Unitholder Transactions:		
Proceeds from issuance of trust units, net	2,836,966	99,034,002
Repurchase of trust units	(1,607,376)	(2,298,330)
	1,229,590	96,735,672
Distributions to Unitholders: (note 7)	(22,334,455)	(18,457,145)
<b>Net Assets – end of year</b>	\$ 251,766,591	\$ 223,498,273
<b>Distributions per unit</b>	\$ 0.96	\$ 1.00

see accompanying notes

## Statement Of Investments

	As at December 31, 2003			As at December 31, 2002		
	Cost	Market	% of Market	Cost	Market	% of Market
<b>Income Funds</b>						
ACS Media Income Fund	\$ 2,375,424	\$ 2,685,960		\$ –	\$ –	
Algonquin Power Income Fund	4,429,565	5,136,824		4,429,565	4,455,115	
Atlas Cold Storage Income Trust	4,304,027	2,540,000		5,023,600	5,252,625	
Boralex Power Income Fund	2,420,970	2,420,970		2,420,970	2,432,838	
CCS Income Trust	2,330,693	4,373,700		2,330,693	2,409,120	
Chemtrade Logistics Income Fund	2,822,932	4,239,945		2,822,932	3,288,600	
Clearwater Seafoods Income Fund	3,060,000	3,600,000		3,060,000	3,108,000	
Clean Power Income Fund	3,494,701	3,395,000		3,494,701	3,325,000	
Connors Brothers Income Fund	2,646,260	3,632,500		3,368,160	4,359,340	
Consumers' Waterheater Income Fund	–	–		523,200	551,775	
Custom Direct Income Trust	3,500,000	3,626,000		–	–	
Davis + Henderson Income Fund	2,947,180	4,915,665		2,947,180	3,622,662	
Energy Savings Income Fund	2,076,230	11,437,345		2,076,230	5,444,420	
Fording Canadian Coal Trust	5,139,440	7,820,000		–	–	
Gateway Casinos Income Fund	3,211,000	5,070,000		3,211,000	3,347,500	
Great Lakes Carbon Income Fund	4,277,550	4,615,600		–	–	
Halterm Income Fund	2,396,604	1,800,945		2,396,604	3,408,240	
Heating Oil Partners Income Fund	3,900,000	5,538,000		5,500,000	6,506,500	
Inter Pipeline Fund	3,082,999	3,523,428		3,082,999	2,792,407	
KCP Income Fund	2,557,000	3,119,540		2,557,000	2,902,195	
Livingston International Income Fund	2,414,107	3,900,000		3,208,750	3,627,030	
Menu Foods Income Fund	726,564	997,740		726,564	990,510	
Norske Skog Canada Ltd.	1,065,000	932,621		1,065,000	1,218,892	
Oceanex Income Fund	3,193,048	4,711,000		3,193,048	3,852,925	
Prizm Canadian Income Fund	3,720,000	3,887,400		–	–	
PRT Forest Regeneration Income Fund	2,199,039	1,998,900		2,199,039	2,223,221	
Rogers Sugar Income Fund	6,307,818	3,780,000		4,740,818	3,078,500	
SFK Pulp Fund	6,003,491	4,769,760		4,353,000	4,440,060	
Superior Plus Income Fund	3,317,060	5,388,600		3,790,845	5,116,800	
TransForce Income Fund	4,264,700	4,824,660		4,264,700	3,839,520	
UE Waterheater Income Fund	1,527,000	1,746,888		–	–	
	95,710,402	120,428,991	48.4%	76,786,598	85,593,795	38.8%
<b>Oil &amp; Gas Royalty Trusts</b>						
Acclaim Energy Trust	3,990,738	4,800,000		3,990,737	3,940,000	
Advantage Energy Income Fund	2,971,300	4,126,200		2,971,300	2,990,000	
APF Energy Trust	–	–		1,216,653	1,178,158	
ARC Energy Trust	5,524,221	8,844,000		6,444,925	8,330,000	
Enerplus Resources Fund	2,280,163	3,935,000		7,017,908	8,633,257	
NAL Oil and Gas Trust	3,099,051	3,829,000		3,472,265	3,529,350	
Paramount Energy Trust	3,273,851	3,007,623		–	–	
Pengrowth Energy Trust	2,918,536	4,250,000		3,377,490	3,409,273	
PrimeWest Energy Trust	3,479,737	3,445,000		4,882,405	4,454,830	
Provident Energy Trust	–	–		2,436,146	2,469,866	
Shiningbank Energy Income Fund	2,546,444	3,914,400		5,590,863	6,985,165	
Ultima Energy Trust	3,430,000	4,368,000		3,430,000	3,605,000	
Vermilion Energy Trust	3,525,000	3,835,000		–	–	
Viking Energy Royalty Trust	5,025,543	4,237,500		6,264,380	6,609,609	
	42,064,584	52,591,723	21.1%	51,095,072	56,134,508	25.4%
<b>Real Estate Investment Trusts</b>						
Cdn Hotel Income Properties Reit	4,093,498	3,656,250		4,093,498	3,375,000	
Cominar Reit	–	–		1,632,899	1,985,756	
Firm Capital Mortgage Investment Trust	1,599,768	1,861,056		1,599,768	1,723,200	
H&R Reit	2,071,134	2,780,750		2,544,535	2,870,250	
IPC US Income Commercial Reit	3,479,284	3,566,310		3,260,655	3,044,145	
Morguard Reit	5,516,372	5,428,457		6,744,953	6,066,492	
O & Y Reit	–	–		682,368	648,798	
Retirement Residences Reit	5,144,173	5,011,500		5,144,173	4,586,400	
RioCan Reit	2,953,350	4,207,500		2,953,350	3,429,250	
Royal Host Reit	3,331,766	2,099,811		3,331,766	2,391,677	
TGS North American Reit	3,500,000	3,409,000		3,500,000	3,517,500	
	31,689,345	32,020,634	12.9%	35,487,965	33,638,468	15.3%
<b>Investments</b>						
	169,464,331	205,041,348	82.4%	163,369,635	175,366,771	79.5%
<b>Cash and Term Deposits</b>						
	43,941,029	43,941,029	17.6%	45,101,699	45,101,699	20.5%
<b>Total</b>	<b>\$ 213,405,360</b>	<b>\$ 248,982,377</b>	<b>100.0%</b>	<b>\$ 208,471,334</b>	<b>\$ 220,468,470</b>	<b>100.0%</b>

## Notes to the Financial Statements

December 31, 2003 and 2002

### 1. Structure of the Fund

Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified") is a closed-end investment trust established under the laws of Ontario pursuant to a Declaration of Trust dated as of July 11, 1997. The Fund commenced operations on September 16, 1997, when it completed an issue of 9,900,000 units at \$10.00 per unit through an initial public offering. The term of the Fund continues until December 31, 2012.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and cash equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003		2002	
	Number	Amount	Number	Amount
Trust units – beginning of year	23,245,956	\$ 212,046,516	13,028,782	\$ 115,310,844
Issued for cash:				
Exchange offer, net	–	–	5,532,613	55,171,357
Exercise of rights, net	–	(20,564)	4,696,152	41,635,987
Issued for services (note 4)	293,080	2,857,530	229,316	2,226,658
Repurchase of trust units	(169,100)	(1,607,376)	(240,907)	(2,298,330)
Trust units – end of year	23,369,936	\$ 213,276,106	23,245,956	\$ 212,046,516

On April 29, 2002, Citadel Diversified completed an exchange offering. Under the terms of the exchange offering a total of 5,532,613 trust units were issued, resulting in net proceeds of \$55.2 million. On November 7, 2002, Citadel Diversified completed a fully subscribed rights offering. Under the terms of the rights offering a total of 4,696,152 trust units were issued at an exercise price of \$9.00 per unit, resulting in net proceeds of \$41.6 million.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation. This program is subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of each such quarter. During 2003, 169,100 trust units were repurchased for cancellation (2002 – 240,907) under the program.

#### 4. Administrative and Investment Manager Fees / Directors' Fees

Citadel Diversified Management Ltd. ("CDML") is the administrator of the Fund. Pursuant to the administrative services agreement, the administration and investment management fees are based upon 1.5% of the average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. In 2003, 286,671 units (2002 – 222,879 units) were issued to CDML in respect of twelve months of services ending September 16, 2004. During 2003, the Fund recorded an expense of \$3,835,339 (2002 – \$2,728,581) in respect of administrative and investment management fees earned during the year. The amounts issued to CDML in 2003 and 2002 are included in units issued for services as shown in note 3. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003, included in accounts payable were amounts owed to CDML of \$21,374 (2001 – \$362,023).

Directors of CDML received a total of 6,409 units in 2003 (2002 – 6,437 units) as payment for their annual retainers.

#### 5. Note Receivable

As part of the March 2002 Exchange Offer, the Administrator and Investment Manager agreed to jointly pay \$2.8 million of the total expenses of the Exchange Offer of \$3.0 million in order to ensure that Citadel Diversified's net asset value increased by no less than \$0.05 per unit. The Fund issued a non-interest bearing note receivable with no specified term to the Administrator and Investment Manager which is to be repaid from future management fees. As at December 31, 2003, the remaining balance of the note receivable was \$1,021,617 (2002 - \$2,194,245).

#### 6. Investments

The net realized gain on the sale of investments was determined as follows:

	2003	2002
Net proceeds from the sale of securities	\$ 34,772,535	\$ 69,952,978
Less cost of securities sold:		
Investments at cost – beginning of year	163,369,635	101,834,997
Investments purchased during year	34,616,775	122,282,675
Investments at cost – end of year	(169,464,331)	(163,369,635)
Cost of investments disposed of during year	28,522,079	60,748,037
Net realized gain on sale of investments	\$ 6,250,456	\$ 9,204,941

#### 7. Cash Distributions

The Fund distributes monthly cash distributions equal to the cash distributions received by the Fund less estimated expenses. In 2002, the Fund distributed a portion of its realized capital gains in order to supplement the distribution shortfall derived from net investment income.

	2003	2002
Net investment income for the year	\$ 19,542,848	\$ 12,711,308
Add fees paid by issuance of units	3,646,927	2,791,073
Shortfall (surplus) cash for distribution in year	(855,320)	2,954,764
Cash distributions	\$ 22,334,455	\$ 18,457,145
Cash distributions per unit	\$ 0.96	\$ 1.00

#### 8. Loan Payable

The Fund maintains a revolving credit facility with a Canadian chartered bank for up to a maximum amount of \$15,000,000 of which no amount was drawn as at December 31, 2003 (2002 – nil). Borrowings are collateralized by a demand debenture in the amount of \$55,000,000 which provides a first floating charge over the Fund's assets. The credit facility bears interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances. The credit facility is a revolving facility that will revolve until July 1, 2004 and for a further 364 days at the option of the bank.

#### 9. Income Taxes

As all taxable income was allocated to the unitholders in 2003 and 2002, no provision for income taxes has been made in these financial statements.

#### 10. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, accounts receivable, revenue receivable, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# Citadel S-1 Income Trust Fund

<b>Stock symbol</b>	<b>SDL.un (TSX)</b>
<b>2003 High/Low</b>	<b>\$29.75 - \$26.15</b>
<b>2003 Distribution</b>	<b>\$2.496 per unit</b>
<b>2003 Taxable Portion</b>	<b>65.0%</b>
<b>2003 Total Return</b>	<b>10.7%</b>
<b>2003 Management Expense Ratio</b>	<b>1.7%</b>

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust which became listed on October 6, 2000 on the Toronto Stock Exchange under the symbol "SDL.un". The Fund has a termination date of December 31, 2010 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust. Citadel S-1's investment objec-

tives are to provide its unitholders with a high level of monthly distributions while maintaining an SR-1 stability rating (formerly S-1) and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of Canadian income funds, Canadian and U.S. high yielding investment grade debt and income yielding equity securities.

Pursuant to the Fund's distribution policy, Citadel S-1 pays monthly cash distributions targeted at \$0.208 per trust unit. The Fund paid total distributions during 2003 of \$2.496 per unit, bringing the total distributions paid since inception to \$7.738 per unit. Since inception in October 2000, the Fund has generated a 49.8% total return to unitholders, which represents an annualized compound rate of return of 13.3% per year. For 2003, distributions were allocated as 32.4% other taxable income, 3.6% dividend income, 60.0% capital gains and 4.0% return of capital. As a result of the high capital gains component, the net effective taxable portion of the 2003 distribution is approximately 65%.

<b>Investment Highlights</b>	2003				2002
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit <sup>(1)</sup>	\$ 30.18	\$ 27.58	\$ 26.99	\$ 25.53	\$ 25.99
Market Price per Unit <sup>(1)</sup>	\$ 28.50	\$ 27.55	\$ 28.31	\$ 27.05	\$ 28.15
Trading Premium (Discount)	(5.6%)	–	4.9%	6.0%	8.3%
Quarterly Distributions per Unit	\$ 0.624	\$ 0.624	\$ 0.624	\$ 0.624	\$ 0.624
Trailing Yield	8.8%	9.1%	8.8%	9.2%	8.9%
Market Capitalization (\$ millions)	\$ 61.3	\$ 58.4	\$ 60.0	\$ 57.4	\$ 59.7

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

## Management's Discussion & Analysis

SDL.un

### Financial Results

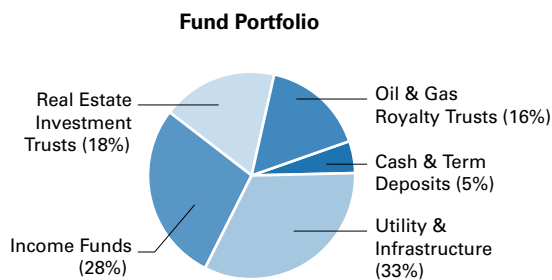
Citadel S-1's net assets rose by 17.8% during 2003, increasing from \$55.1 million at December 31, 2002 to \$64.9 million at December 31, 2003. Stronger valuations of the general business income funds and Reits within the Fund's portfolio helped propel the Fund's net asset value per unit from \$25.99 in 2002 to \$30.18 in 2003. The Fund's market price also strengthened, rising from \$28.15 at the end of 2002 to \$28.50 at the end of 2003. Inclusive of the monthly distributions, the Fund generated a 10.7% total return in 2003 versus 6.0% in 2002. By comparison, the S&P/TSX income trust index generated a total return of 38.3% total

return in 2003. The superior performance of the index is attributable to the heavy weighting it maintains in the oil & gas royalty trusts which as a sector generated a 46.4% total return for the year. Unlike the index, Citadel S-1 must limit its weightings in the more volatile, higher yielding trusts in order to maintain its SR-1 stability rating.

Total revenue for 2003 increased to \$5.6 million from \$5.2 million in 2002 as the Fund divested all of its holdings in fixed income investments and redeployed the proceeds in general business income funds and Reits. Total expenses for 2003 remained consistent with 2002 at \$1.0 million.

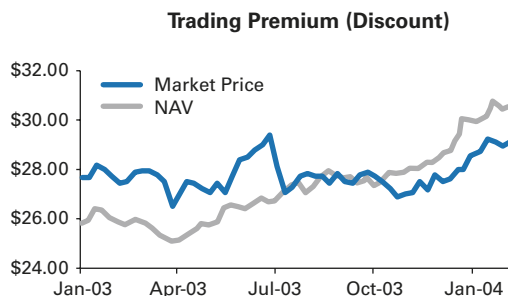
Net investment income and net investment income per unit increased from \$4.1 million and \$1.97 per unit in 2002 to \$4.6 million and \$2.16 per unit in 2003 respectively. During 2003, Citadel S-1 paid total distributions of \$5.3 million or \$2.496 per unit compared to \$5.2 million or \$2.496 per unit in 2002.

The Fund took profits on a number of dispositions which resulted in realized capital gains of \$2.7 million. In addition, an increase in unrealized gains of \$7.0 million pushed total results of operations to \$14.3 million or \$6.71 per unit in 2003 compared to \$4.5 million or \$2.16 per unit in 2002. Citadel S-1's portfolio based on market values at December 31, 2003 is shown in the chart below.



### Trading Premium / Discount to Net Asset Value

Up until the second quarter of 2003, Citadel S-1's market price had consistently traded above its initial offering price of \$25.00 per unit and its net asset value per unit. However in the last half of the year, the Fund's market price came under pressure and started trading at a slight discount to its net asset value as shown in the chart. No units were repurchased for cancellation in 2003 under its mandatory repurchase program, although the Fund was required to repurchase units in the first quarter of 2004. Under this program, Citadel S-1 is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. The Fund maintained an average premium to net asset value of 2.7% during 2003 compared to 8.2% in 2002. The chart below reflects the Fund's net asset value per unit and market price over the past year.



### Stability Rating

Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 at the highest to SR-7 at the lowest. During 2003, the Fund maintained its SR-1 stability rating and expects to again maintain the rating in 2004.

### Risk Assessment

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

### Outlook for 2004

Unitholders have come to expect Citadel S-1 to provide highly stable and sustainable monthly distributions of \$0.208 per unit, while maintaining its SR-1 stability rating and its capital base. We expect this to continue in 2004. The current combination of low inflation and historically low interest rates provide a favorable economic environment and positive outlook in 2004. The Fund expects to distribute \$2.50 per unit in 2004 based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

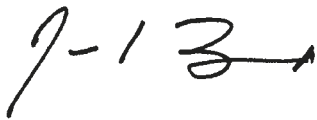
## Management's Responsibility Statement

The financial statements of Citadel S-1 Income Trust Fund have been prepared by Citadel S1 Management Ltd. ("CSML") and approved by the Board of Directors of CSML. CSML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

CSML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CSML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

CSML, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel S1 Management Ltd.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel S1 Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Citadel S-1 Income Trust Fund

We have audited the statements of net assets and investments of Citadel S-1 Income Trust Fund as at December 31, 2003 and 2002, and the statements of operations and changes in net assets for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and 2002, and the results of its operations and the changes in its net assets for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.




Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

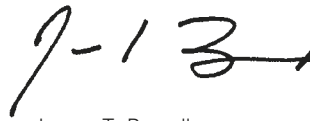
As at December 31,	2003	2002
<b>Assets</b>		
Investments, at market (cost: 2003 – \$49,252,564; 2002 – \$49,149,785)	\$ 61,174,385	\$ 54,099,699
Cash and term deposits	2,998,346	426,544
Prepaid expenses (note 4)	595,738	592,275
Revenue receivable	542,661	427,034
Accounts receivable	9,090	7,504
	<u>65,320,220</u>	<u>55,553,056</u>
<b>Liabilities</b>		
Distributions payable	447,060	441,060
	<u>447,060</u>	<u>441,060</u>
<b>Net Assets representing Unitholders' Equity</b>	<u>\$ 64,873,160</u>	<u>\$ 55,111,996</u>
<b>Units outstanding</b> (note 3)	<u>2,149,329</u>	<u>2,120,483</u>
<b>Net asset value per unit</b>	<u>\$ 30.18</u>	<u>\$ 25.99</u>

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

Year Ended December 31,	2003	2002
<b>Revenue</b>		
Investment income	\$ 5,613,809	\$ 5,152,180
	5,613,809	5,152,180
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	779,334	762,210
General and administration costs	239,095	255,896
	1,018,429	1,018,106
<b>Net investment income</b>	4,595,380	4,134,074
<b>Net realized gain on sale of investments</b> (note 5)	2,710,284	1,228,584
<b>Net change in unrealized gain (loss) on investments</b>	6,971,908	(846,301)
<b>Total results of operations</b>	\$ 14,277,572	\$ 4,516,357
<b>Results of operations per unit</b> <sup>(1)</sup>		
Net investment income	\$ 2.16	\$ 1.97
Net realized gain on sale of investments	1.27	0.59
Net change in unrealized gain (loss) on investments	3.28	(0.40)
	\$ 6.71	\$ 2.16

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

## Statement Of Changes In Net Assets

Year Ended December 31,	2003	2002
<b>Net Assets – beginning of year</b>	\$ 55,111,996	\$ 55,012,356
Operations:		
Net investment income	4,595,380	4,134,074
Net realized gain on sale of investments	2,710,284	1,228,584
Net change in unrealized gain (loss) on investments	6,971,908	(846,301)
	14,277,572	4,516,357
Unitholder Transactions:		
Proceeds from issuance of trust units, net	794,318	825,515
Distributions to Unitholders: (note 6)	(5,310,726)	(5,242,232)
<b>Net Assets – end of year</b>	\$ 64,873,160	\$ 55,111,996
<b>Distributions per unit</b>	\$ 2.496	\$ 2.496

see accompanying notes

## Statement of Investments

	As at December 31, 2003			As at December 31, 2002		
	Cost	Market	% of Market	Cost	Market	% of Market
<b>Fixed Income Investments</b>						
Alberta Energy Co. Ltd. 8.50%	\$ –	\$ –		\$ 500,306	\$ 527,350	
Branscan Corporation 8.35%	–	–		4,190,295	4,464,042	
Enbridge Inc. 7.60%	–	–		1,000,400	1,063,540	
Magna Int'l Inc. Series A 8.65%	–	–		4,489,750	4,725,000	
Suncor Energy Inc. 9.05%	–	–		791,400	805,500	
TransAlta Corporation 8.15%	–	–		3,620,250	3,714,900	
TransAlta Corporation 7.75%	–	–		1,200,000	1,218,720	
	–	–		15,792,401	16,519,052	30.3%
<b>Oil &amp; Gas Royalty Trusts</b>						
ARC Energy Trust	2,456,760	3,095,400		3,919,117	3,986,500	
Bonavista Energy Trust	711,351	850,095		–	–	
Enerplus Resources Fund	1,804,227	2,754,500		3,359,470	3,656,037	
Paramount Energy Trust	991,813	902,864		–	–	
Pengrowth Energy Trust	–	–		758,626	589,200	
PrimeWest Energy Trust	–	–		363,600	317,500	
Shiningbank Energy Income Fund	896,250	1,178,048		623,250	681,750	
Vermilion Energy Trust	1,057,500	1,150,500		–	–	
	7,917,901	9,931,407	15.5%	9,024,063	9,230,987	16.9%
<b>Real Estate Investment Trusts</b>						
Borealis Retail Reit	1,311,958	1,517,100		–	–	
Calloway Reit	936,600	1,113,368		–	–	
Cdn Hotel Income Properties Reit	1,479,496	1,560,000		1,479,496	1,440,000	
Dundee Reit	1,216,800	1,404,000		–	–	
Firm Capital Mortgage Investment Trust	1,076,230	1,272,240		1,076,231	1,178,000	
RioCan Reit	3,063,096	4,896,000		2,412,845	3,354,430	
	9,084,180	11,762,708	18.3%	4,968,572	5,972,430	11.0%
<b>Income Funds</b>						
ACS Media Income Fund	1,176,450	1,242,000		–	–	
Amtelecom Income Fund	1,200,000	1,452,000		–	–	
Bell Nordiq Income Fund	1,060,000	1,399,000		1,060,000	1,075,000	
Clearwater Seafoods Income Fund	412,340	466,800		–	–	
Custom Direct Income Trust	900,000	932,400		–	–	
Energy Savings Income Fund	215,343	436,325		–	–	
Fording Canadian Coal Trust	1,360,350	2,070,000		–	–	
Heating Oil Partners Income Fund	1,190,445	1,349,000		–	–	
Noranda Income Fund	1,003,000	1,164,000		–	–	
Rogers Sugar Income Fund	1,157,831	900,000		867,831	846,000	
SFK Pulp Fund	830,477	776,720		–	–	
Superior Plus Income Fund	2,007,131	3,592,400		2,508,913	3,444,000	
TransForce Income Fund	1,207,825	1,495,530		–	–	
UE Water Heater Income Fund	807,000	923,208		–	–	
	14,528,192	18,199,383	28.3%	4,436,744	5,365,000	9.8%
<b>Utility &amp; Infrastructure</b>						
Algonquin Power Income Fund	2,896,967	3,158,437		2,361,227	2,182,480	
Boralex Power Income Fund	1,911,320	1,948,200		1,310,000	1,342,750	
Calpine Power Income Fund	1,222,436	1,559,250		–	–	
Clean Power Income Fund	2,490,800	2,522,000		996,000	950,000	
Inter Pipeline Fund	2,198,222	2,987,600		1,363,327	1,537,500	
Keyspan Facilities Income Fund	868,952	1,062,500		–	–	
Northland Power Income Fund	2,119,284	2,960,000		2,543,141	3,300,000	
Pembina Pipeline Income Fund	–	–		2,340,000	3,270,000	
TransAlta Power, L.P.	815,236	1,198,800		815,236	1,123,200	
TransCanada Power, L.P.	3,199,074	3,884,100		3,199,074	3,306,300	
	17,722,291	21,280,887	33.2%	14,928,005	17,012,230	31.2%
<b>Investments</b>						
	49,252,564	61,174,385	95.3%	49,149,785	54,099,699	99.2%
<b>Cash and Term Deposits</b>						
	2,998,346	2,998,346	4.7%	426,544	426,544	0.8%
<b>Total</b>	<b>\$ 52,250,910</b>	<b>\$ 64,172,731</b>	<b>100.0%</b>	<b>\$ 49,576,329</b>	<b>\$ 54,526,243</b>	<b>100.0%</b>

## Notes to the Financial Statements

December 31, 2003 and 2002

### 1. Structure of the Fund

Citadel S-1 Income Trust Fund (the "Fund" or "Citadel S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 11, 2000. The Fund commenced operations on October 6, 2000, when it completed an issue of 1,850,000 units at \$25.00 per unit through an initial public offering. A further 187,260 trust units were issued pursuant to an over-allotment provision. The term of the Fund continues until December 31, 2010.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 2,037,260 trust units were issued at a price of \$25.00 per unit.

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003		2002	
	Number	Amount	Number	Amount
Trust units – beginning of year	2,120,483	\$ 49,689,773	2,093,510	\$ 48,864,258
Issued for services (note 4)	28,846	794,318	26,973	789,700
Agents' fees and issue costs	–	–	–	35,815
Trust units – end of year	2,149,329	\$ 50,484,091	2,120,483	\$ 49,689,773

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% of the total number of units outstanding at the beginning of each such quarter. Citadel S-1 repurchased no trust units under this repurchase program during 2003 or 2002.

### 4. Administrative and Investment Manager Fees / Directors' Fees

Citadel S1 Management Ltd. ("CSML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administration and investment management fees are based upon 1.25% of the average weekly net asset value of the Fund, payable in units in advance and subject to annual adjustment. In October 2003, CSML and Bloom Investment Counsel, Inc. were issued 14,599 units (2002 – 13,674 units) and 11,946 units (2002 – 11,187 units) respectively for the next twelve months of services.

During 2003, the Fund recorded an expense of \$779,334 (2002 – \$762,210) in respect of the administrative and investment management fee units earned during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003 included in accounts receivable were amounts owed from CSML of \$9,090 (2002 - \$7,504).

Directors of CSML received a total of 2,301 units in 2003 (2002 – 2,112 units) as payment for their annual retainers.

## 5. Investments

The net realized gain on the sale of investments was determined as follows:

	2003	2002
Net proceeds from the sale of securities	\$ 27,052,283	\$ 11,017,381
Less cost of securities sold:		
Investments at cost – beginning of year	49,149,785	47,965,358
Investments purchased during year	24,444,778	10,973,224
Investments at cost – end of year	(49,252,564)	(49,149,785)
Cost of investments disposed of during year	24,341,999	9,788,797
Net realized gain on sale of investments	\$ 2,710,284	\$ 1,228,584

## 6. Cash Distributions

The Fund pays out monthly cash distributions targeted at \$0.208 per unit based upon cash distributions received by the Fund less estimated expenses. In 2002, the Fund distributed a portion of its realized capital gains in order to supplement the distribution shortfall derived from net investment income.

	2003	2002
Net investment income for the year	\$ 4,595,380	\$ 4,134,074
Add fees paid by issuance of units	793,524	824,739
Shortfall (surplus) cash for distribution in the year	(78,178)	283,419
Cash distributions	\$ 5,310,726	\$ 5,242,232
Cash distributions per unit	\$ 2.496	\$ 2.496

## 7. Income Taxes

As all taxable income was allocated to the unitholders in 2003 and 2002, no provision for income taxes has been made in these financial statements.

## 8. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, accounts receivable, revenue receivable, and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# Citadel HYTES Fund

<b>Stock symbol</b>	<b>CHF.un (TSX)</b>
<b>2003 High/Low</b>	<b>\$30.30 - \$26.00</b>
<b>2003 Distribution</b>	<b>\$3.14 per unit</b>
<b>2003 Taxable Portion</b>	<b>66.0%</b>
<b>2003 Total Return</b>	<b>25.3%</b>
<b>2003 Management Expense Ratio</b>	<b>1.8%</b>

Citadel HYTES Fund (the "Fund" or "Citadel HYTES") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on April 11, 2001. The Fund has a termination date of December 31, 2011, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Citadel HYTES' investment objectives are to provide its unitholders with stable, sustainable and tax-advantaged distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of oil & gas royalty trusts, real estate investment trusts, income funds, limited partnerships, Canadian high yielding investment grade debt and income yielding equity securities.

Pursuant to the Fund's distribution policy, Citadel HYTES pays monthly cash distributions targeted at \$0.26 per trust unit. During 2003, the Fund paid total distributions of \$3.14 per unit (2002 - \$3.12 per unit), which included one top-up distribution of \$0.02 per unit in addition to the regular monthly distributions. For tax purposes the distributions are allocated as 42.3% other taxable income, 6.6% dividend income, 38.8% capital gains and 12.3% return of capital. The Fund's distributions were more taxable than expected in 2003 due to substantial capital gains realized during the year. The net effective current taxable portion of the 2003 distributions was approximately 66% due to the high capital gains component.

<b>Investment Highlights</b>	2003				2002
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit <sup>(1)</sup>	\$ 31.48	\$ 28.70	\$ 28.28	\$ 26.38	\$ 26.83
Market Price per Unit <sup>(1)</sup>	\$ 29.95	\$ 27.25	\$ 27.15	\$ 26.64	\$ 26.80
Trading Premium (Discount)	(4.9%)	(5.1%)	(4.0%)	1.0%	-
Quarterly Distributions per Unit	\$ 0.78	\$ 0.78	\$ 0.80	\$ 0.78	\$ 0.78
Trailing Yield	10.5%	11.5%	11.6%	11.7%	11.6%
Market Capitalization (\$ millions)	\$ 168.0	\$ 153.5	\$ 152.5	\$ 149.2	\$ 149.6

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

## Management's Discussion & Analysis

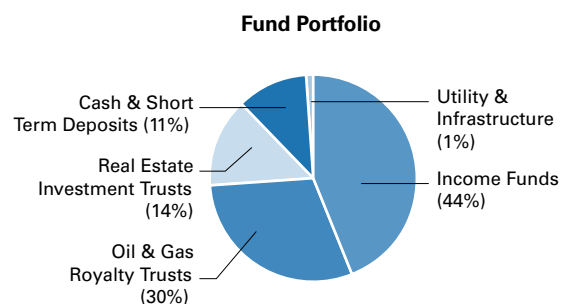
### Financial Results

CHF.un

Citadel HYTES continued to grow its net assets in 2003 with stronger valuations of its portfolio holdings in all sectors. Net assets increased from \$149.8 million or \$26.83 per unit at December 31, 2002 to \$176.6 million or \$31.48 per unit at December 31, 2003. The Fund's unit price also improved with the stronger net asset value, gaining almost 12% during the year. Inclusive of distributions, the Fund generated a total return of 25.3% for 2003. By comparison, the S&P/TSX income trust index provided a 38.3% total return due to its heavy weighting in this year's top performing sector, the oil & gas royalty trusts.

Year over year, total revenue rose by almost 8% from \$18.9 million in 2002 to \$20.4 million in 2003. Administrative and investment manager fees, payable in units of the Fund, as well as trailer fees also increased with the growth in net assets. General and administration costs and loan interest remained consistent with 2002 levels. After total expenses of \$3.5 million in 2003, the Fund generated net investment income of \$16.9 million compared to \$15.6 million in 2002. During 2003, Citadel HYTES paid distributions to unitholders of \$17.6 million or \$3.14 per unit compared to \$17.3 million or \$3.12 per unit in 2002.

Throughout the year, the Fund reduced its exposure in oil & gas royalty trusts and took profits on a number of dispositions, resulting in realized gains of \$5.1 million (2002 - \$8.2 million). Stronger net investment income and unrealized gains in 2003 elevated total results of operations to \$43.7 million or \$7.80 per unit from \$29.4 million or \$5.30 per unit in 2002. As at December 31, 2003 Citadel HYTES' portfolio based on market values is depicted below.



### Special Meeting of Unitholders

#### Payment of Fees in Units of the Fund

Under the terms of the initial public offering of the Fund, in order to achieve a strategic alignment of the interests of management of the Fund and its unitholders, it was determined that all administrative and investment manager fees be paid in units of the Fund. However, as a condition to listing the units of the Fund for trading on the Toronto Stock Exchange, the exchange would only permit the reservation of 3 years worth of fee units. Following the initial 3 years, the Toronto Stock Exchange required that a Special Meeting of unitholders be held to approve the continued practice of paying fees in units of the Fund. Accordingly, the Board of Directors of CTEF called a Special Meeting of unitholders on March 30, 2004 to approve the continuation of paying all administrative and investment manager fees in units of the Fund. In addition, and since the term of the Fund was set to expire in 2006, the Board of Directors elected to avoid the cost of an additional unitholder meeting and allow unitholders to also approve the extension of the term of the Fund. At the Special Meeting unitholders voted to approve the continuation of paying fees in units of the Fund.

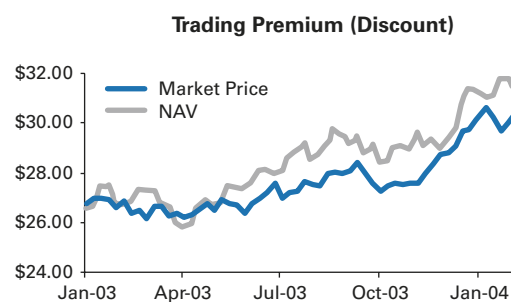
#### Term of the Fund

At the special meeting of unitholders held March 30, 2004 called for the purpose of having unitholders approve the continuation of paying all administrative and investment manager fees in units of the Fund, unitholders also voted in favour of extending the term of the Fund and the terms of the administrative services agreement and investment management agreement by an additional 5 years to December 31, 2011.

### Trading Premium / Discount to Net Asset Value

Despite a strengthening net asset value and market price in 2003, Citadel HYTES' unit price began trading at a discount to net asset value. The average discount to its net asset value in 2003 was 2.8% in 2003 compared to an average premium of 0.3% in 2002. During short periods of market price weakness, the Fund repurchased 43,600 units for cancellation under the mandatory repurchase program in 2003 (2002- 5,600 units). Under its mandatory repurchase program, Citadel HYTES is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

At December 31, 2003 Citadel HYTES' net asset value per unit and market price were \$31.48 (2002 - \$26.83) and \$29.95 (2002 - \$26.80) respectively, representing a 4.9% discount to net asset value (2002 - marginal discount). The chart below reflects the Fund's net asset value per unit and market price over the past year.



### Risk Assessment

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

### Outlook for 2004

In the current economic environment of low inflation and interest rates and high commodity prices, the income trust sector should continue to perform well for 2004. Although the capital growth levels of 2003 are not expected to be repeated in 2004, Citadel HYTES expects to have no difficulty maintaining its monthly distribution of \$0.26 per unit based upon the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

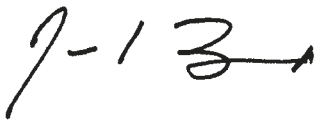
## Management's Responsibility Statement

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

CTEF maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CTEF is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

CTEF, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel TEF Management Ltd.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel TEF Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Citadel HYTES Fund

We have audited the statements of net assets and investments of Citadel HYTES Fund as at December 31, 2003 and 2002, and the statements of operations and changes in net assets for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and 2002, and the results of its operations and the changes in its net assets for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.




Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

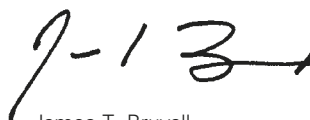
As at December 31,	2003	2002
<b>Assets</b>		
Investments, at market (cost: 2003 - \$134,752,786; 2002- \$147,080,159)	\$ 168,142,368	\$ 158,733,757
Cash and term deposits	21,743,952	4,126,551
Prepaid expenses	324,657	326,990
Revenue receivable	1,532,059	1,706,086
	<u>191,743,036</u>	<u>164,893,384</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	185,073	173,705
Distributions payable	1,458,570	1,451,351
Loan payable (note 8)	13,500,000	13,500,000
	<u>15,143,643</u>	<u>15,125,056</u>
<b>Net Assets representing Unitholders' Equity</b>	<u>\$ 176,599,393</u>	<u>\$ 149,768,328</u>
<b>Units outstanding</b> (note 3)	<u>5,609,885</u>	<u>5,582,119</u>
<b>Net asset value per unit</b>	<u>\$ 31.48</u>	<u>\$ 26.83</u>

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

Year Ended December 31,	2003	2002
<b>Revenue</b>		
Investment income	\$ 20,356,650	\$ 18,942,439
	20,356,650	18,942,439
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	2,010,866	1,885,771
Trailer fee (note 5)	634,479	583,726
General and administration costs	333,479	343,350
Loan interest	499,423	491,268
	3,478,247	3,304,115
<b>Net investment income</b>	16,878,403	15,638,324
<b>Net realized gain on sale of investments</b> (note 6)	5,085,632	8,163,911
<b>Net change in unrealized gain on investments</b>	21,735,984	5,608,969
<b>Total results of operations</b>	\$ 43,700,019	\$ 29,411,204
<b>Results of operations per unit</b> <sup>(1)</sup>		
Net investment income	\$ 3.01	\$ 2.82
Net realized gain on sale of investments	0.91	1.47
Net change in unrealized gain on investments	3.88	1.01
	\$ 7.80	\$ 5.30

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

## Statement Of Changes In Net Assets

Year Ended December 31,	2003	2002
<b>Net Assets – beginning of year</b>	\$ 149,768,328	\$ 136,003,743
Operations:		
Net investment income	16,878,403	15,638,324
Net realized gain on sale of investments	5,085,632	8,163,911
Net change in unrealized gain on investments	21,735,984	5,608,969
	43,700,019	29,411,204
Unitholder Transactions:		
Proceeds from issuance of trust units, net	1,941,853	1,824,907
Repurchase of trust units	(1,195,106)	(145,750)
	746,747	1,679,157
Distributions to Unitholders: (note 7)	(17,615,701)	(17,325,776)
<b>Net Assets – end of year</b>	\$ 176,599,393	\$ 149,768,328
<b>Distributions per unit</b>	\$ 3.14	\$ 3.12

see accompanying notes

## Statement Of Investments

	As at December 31, 2003			As at December 31, 2002		
	Cost	Market	% of Market	Cost	Market	% of Market
<b>Real Estate Investment Trusts</b>						
Cdn Hotel Income Properties Reit	\$ 2,851,565	\$ 3,168,750		\$ 2,851,565	\$ 2,925,000	
H & R Reit	–	–		2,457,733	2,670,000	
InnVest Reit	3,010,470	3,933,000		3,010,470	3,277,500	
Morguard Reit	3,717,339	4,115,250		4,557,415	4,611,250	
O & Y Reit	4,500,000	5,287,500		4,500,000	4,522,500	
Retirement Residences Reit	2,140,305	2,313,000		2,140,305	2,116,800	
RioCan Reit	2,078,790	3,182,400		2,078,790	2,593,760	
Summit Reit	4,156,200	5,448,000		4,156,200	4,539,000	
	22,454,669	27,447,900	14.5%	25,752,478	27,255,810	16.8%
<b>Oil &amp; Gas Royalty Trusts</b>						
Advantage Energy Income Fund	1,545,070	3,588,000		1,545,070	2,600,000	
APF Energy Trust	2,763,000	3,135,000		2,763,000	2,447,500	
ARC Energy Trust	10,769,328	12,897,500		13,846,278	13,387,500	
Enerplus Resources Fund	6,061,988	8,853,750		10,776,868	11,220,000	
NAL Oil & Gas Trust	2,250,000	2,735,000		2,250,000	2,250,000	
Paramount Energy Trust	2,524,312	2,286,944		–	–	
Pengrowth Energy Trust	4,803,400	5,100,000		7,805,525	5,744,700	
PrimeWest Energy Trust	–	–		8,936,272	6,667,500	
Provident Energy Trust	–	–		6,893,370	8,123,775	
Shiningbank Energy Income Fund	4,657,314	5,592,000		4,657,314	4,545,000	
Vermilion Energy Trust	5,658,973	6,136,000		–	–	
Viking Energy Royalty Trust	6,273,450	5,763,000		6,273,450	7,211,400	
	47,306,835	56,087,194	29.5%	65,747,147	64,197,375	39.4%
<b>Income Funds</b>						
ACS Media Income Fund	1,404,560	1,585,440		–	–	
Advanced Fiber Technologies Income Fund	1,514,500	1,852,500		1,514,500	1,552,500	
Atlas Cold Storage Income Trust	972,995	652,780		3,339,228	3,969,000	
Chemtrade Logistics Income Fund	2,400,000	4,332,000		2,400,000	3,360,000	
Cineplex Galaxy Income Trust	1,810,079	1,843,250		–	–	
Connors Brothers Income Fund	–	–		2,350,000	3,219,500	
Custom Direct Income Trust	2,650,000	2,745,400		–	–	
Davis + Henderson Income Fund	4,129,467	6,980,000		6,194,200	7,716,000	
Energy Savings Income Fund	2,000,000	11,260,000		2,000,000	5,360,000	
Fording Canadian Coal Trust	3,929,900	5,980,000		–	–	
Great Lakes Carbon Income Fund	3,151,897	3,403,400		–	–	
Halterm Income Fund	3,305,658	1,767,000		3,305,658	3,344,000	
Heating Oil Partners Income Fund	2,990,000	4,245,800		5,400,000	6,388,200	
KCP Income Fund	3,105,000	3,788,100		3,105,000	3,524,175	
Livingston International Income Fund	1,800,000	2,925,000		3,059,000	3,478,083	
Menu Foods Income Fund	477,000	658,260		477,000	653,490	
Prizm Canadian Income Fund	2,850,000	2,978,250		–	–	
Rogers Sugar Income Fund	3,420,000	3,240,000		–	–	
ROW Entertainment Income Fund	2,706,729	2,885,662		–	–	
SFK Pulp Fund	5,505,234	4,389,760		4,003,000	4,083,060	
Sun Gro Horticulture Income Fund	4,500,000	3,487,500		4,500,000	4,702,500	
Superior Plus Income Fund	3,538,193	6,030,100		8,280,878	10,824,000	
TransForce Income Fund	3,694,100	4,150,430		3,694,100	3,302,960	
UE Waterheater Income Fund	1,178,000	1,347,632		–	–	
	63,033,312	82,528,264	43.5%	53,622,564	65,477,468	40.2%
<b>Utility &amp; Infrastructure</b>						
Algonquin Power Income Fund	1,957,970	2,079,010		1,957,970	1,803,104	
	1,957,970	2,079,010	1.1%	1,957,970	1,803,104	1.1%
<b>Investments</b>						
	134,752,786	168,142,368	88.6%	147,080,159	158,733,757	97.5%
<b>Cash and Term Deposits</b>						
	21,743,952	21,743,952	11.4%	4,126,551	4,126,551	2.5%
<b>Total</b>	<b>\$ 156,496,738</b>	<b>\$ 189,886,320</b>	<b>100.0%</b>	<b>\$ 151,206,710</b>	<b>\$ 162,860,308</b>	<b>100.0%</b>

## Notes to the Financial Statements

December 31, 2003 and 2002

### 1. Structure of the Fund

Citadel HYTES Fund (the "Fund" or "Citadel HYTES") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of February 27, 2001. The Fund commenced operations on April 11, 2001, when it completed an issue of 5,000,000 units at \$25.00 per unit through an initial public offering. A further 472,701 trust units were issued pursuant to an over-allotment provision. The term of the Fund continues until December 31, 2011.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 5,472,701 trust units were issued at a price of \$25.00 per unit.

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003		2002	
	Number	Amount	Number	Amount
Trust units – beginning of year	5,582,119	\$ 131,698,322	5,517,684	\$ 130,019,165
Issued for services (note 4)	71,366	1,941,853	70,035	1,824,907
Repurchase of trust units	(43,600)	(1,195,106)	(5,600)	(145,750)
Trust units – end of year	5,609,885	\$ 132,445,069	5,582,119	\$ 131,698,322

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The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of each such quarter. During 2003, Citadel HYTES repurchased 43,600 trust units under this program (2002 – 5,600).

### 4. Administrative and Investment Manager Fees / Directors' Fees

Citadel TEF Management Ltd. ("CTEF") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administration and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund and the amount outstanding under the Fund's term facility, payable in units monthly in arrears. During 2003, a total of 68,979 units (2002 – 67,631 units) were issued pursuant to these agreements and the Fund recorded an expense of

\$2,010,866 (2002 - \$1,885,771) in respect of the administrative and investment management fees during the periods. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. Included in accounts payable were amounts owed to CTEF of \$16,776 at December 31, 2003 (2002 - \$22,989).

Directors of CTEF received a total of 2,387 units in 2003 (2002 – 2,404 units) as payment for their annual retainers.

## 5. Trailer Fee

Citadel HYTES pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2003, the Fund recorded an expense of \$634,479 (2002 - \$583,726) relating to the trailer fee.

## 6. Investments

The net realized gain on the sale of investments was determined as follows:

	2003	2002
Net proceeds from the sale of securities	\$ 52,941,425	\$ 50,963,301
Less cost of securities sold:		
Investments at cost – beginning of year	147,080,159	140,867,631
Investments purchased during year	35,528,420	49,011,918
Investments at cost – end of year	(134,752,786)	(147,080,159)
Cost of investments disposed of during year	47,855,793	42,799,390
Net realized gain on sale of investments	\$ 5,085,632	\$ 8,163,911

## 7. Cash Distributions

The Fund pays out targeted monthly cash distributions of \$0.26 per unit based upon cash distributions received by the Fund less estimated expenses.

	2003	2002
Net investment income for the year	\$ 16,878,403	\$ 15,638,324
Add fees paid by issuance of units	1,941,844	1,948,274
Surplus cash not distributed in year	(1,204,546)	(260,822)
Cash distributions	\$ 17,615,701	\$ 17,325,776
Cash distributions per unit	\$ 3.14	\$ 3.12

## 8. Loan Payable

The Fund maintains a credit facility with a Canadian chartered bank for up to a maximum amount of \$23.5 million of which \$13.5 million relates to a term facility and \$10.0 million relates to an operating facility. The term facility was fully drawn as at December 31, 2003 and 2002 and is due and payable on the earlier of December 31, 2006 or termination of the Fund. The operating facility is available until December 31, 2006. Borrowings are collateralized by a general security agreement which provides a first floating charge over the Fund's assets. The term and operating credit facilities bear interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances.

## 9. Income Taxes

As all taxable income was allocated to the unitholders in 2003 and 2002, no provision for income taxes has been made in these financial statements.

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## 10. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, revenue receivable, accounts payable and accrued liabilities, distributions payable and loan payable approximate their carrying amount due to the short-term maturity of these instruments.

# Citadel SMaRT Fund

<b>Stock symbol</b>	<b>CRT.un (TSX)</b>
<b>2003 High/Low</b>	<b>\$28.65 - \$24.64</b>
<b>2003 Distribution</b>	<b>\$2.496 per unit</b>
<b>2003 Taxable Portion</b>	<b>40.0%</b>
<b>2003 Total Return</b>	<b>20.3%</b>
<b>2003 Management Expense Ratio</b>	<b>2.2%</b>

Citadel SMaRT Fund (the "Fund" or "Citadel SMaRT") is a mutual fund investment trust which became listed on the Toronto Stock Exchange under the symbol "CRT.un" on September 14, 2001. The Fund has a termination date of December 31, 2013 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust. Citadel SMaRT has been

structured to provide investors with monthly cash distributions derived from a managed portfolio of royalty trust units, as selected by and actively managed by the Fund's investment manager, combined with capital protection of 70% of the original investment obtained through a forward sale of securities purchased with approximately 34% of the proceeds of the Fund's initial public offering.

Pursuant to the Fund's distribution policy, Citadel SMaRT pays monthly cash distributions targeted at \$0.208 per trust unit or \$2.496 per unit annually. The Fund paid total distributions during 2003 of \$2.496 per unit (2002 - \$2.496), a portion of which has been supplemented from realized gains generated in their respective years. For tax purposes, the 2003 distributions have been allocated as 26.5% other taxable income, 0.1% dividend income, 26.9% capital gains and 46.5% return of capital. The net effective current taxable portion of the 2003 distribution was approximately 40%.

## Investment Highlights

	2003				2002
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit <sup>(1)</sup>	\$ 30.35	\$ 28.99	\$ 28.07	\$ 26.57	\$ 26.69
Market Price per Unit <sup>(1)</sup>	\$ 28.36	\$ 27.40	\$ 26.61	\$ 25.01	\$ 25.89
Trading Premium (Discount)	(6.6%)	(5.5%)	(5.2%)	(5.9%)	(3.0%)
Quarterly Distributions per Unit	\$ 0.624	\$ 0.624	\$ 0.624	\$ 0.624	\$ 0.624
Trailing Yield	8.8%	9.1%	9.4%	10.0%	9.6%
Market Capitalization (\$ millions)	\$ 138.6	\$ 144.9	\$ 149.1	\$ 149.3	\$ 156.5

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

## Management's Discussion & Analysis

### Financial Results

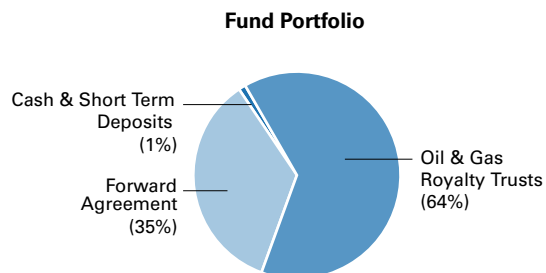
Citadel SMaRT Fund experienced another strong year from a capital appreciation perspective, as strong oil and gas prices drove royalty trust valuations higher. The Fund's net asset value per unit grew from \$26.69 at December 31, 2002 to \$30.35 at December 31, 2003, while unitholder redemptions and unit repurchases reduced net assets from \$161.4 million at the end of 2002 to \$148.3 million in 2003. Stable monthly distributions, combined with the Fund's strengthening unit price over the year, provided unitholders with a 20.3% total return. By comparison, the S&P/TSX royalty trust index generated a sector leading 46.4% total return. However, it is important to note that Citadel SMaRT provides 70% capital protection to its unitholders in addition to yield which is desirable in the volatile oil & gas sector, but does reduce the amount of assets available to generate yield.

Citadel SMaRT's total investment income declined from \$21.1 million for 2002 to \$16.0 million in 2003 as a result of the smaller asset base. Administrative and investment manager fees and trailer fees declined in 2003 in relation to the Fund's net asset value. General and administration costs increased slightly in 2003 to \$0.5 million primarily due to costs of the special unitholder meeting in February 2003 to amend the Fund's redemption features. Net investment income declined to \$12.5 million in 2003 (2002 - \$16.4 million), while net investment income per unit increased to \$2.26 per unit in 2003 from \$2.00 per unit in 2002.

In order to meet quarterly redemption and unit repurchase costs, the Fund is required to liquidate a portion of its royalty trust portfolio and forward agreement. As a result, the Fund realized significant gains of \$2.6 million on the disposition of certain royalty trusts and losses of \$4.7 million on the

forward securities. Stronger net investment income and unrealized gains in the portfolio helped boost total results of operations to \$5.84 per unit in 2003 compared to \$4.75 per unit in 2002.

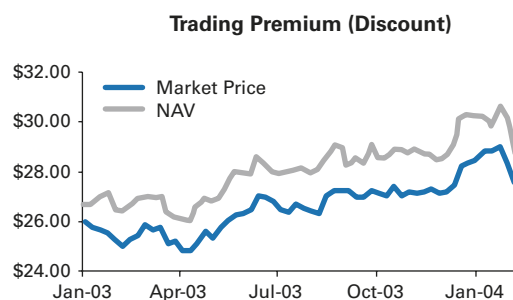
Citadel SMaRT's portfolio at December 31, 2003 is as shown below.



### Trading Premium / Discount to Net Asset Value

Although 2003 brought sharp increases in the Fund's net asset value per unit and unit price, Citadel SMaRT's market price continued to trade at a discount to its net asset value. As a result of this weakness, the Fund utilized its mandatory repurchase program to repurchase 286,339 units (2002 – 305,745 units) for cancellation at an average cost of \$26.12 per unit. Under its mandatory repurchase program, Citadel SMaRT is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

Citadel SMaRT's unit price traded at an average discount to net asset value of 5.3% in 2003 (2002 - discount of 4.3%). The chart below reflects the Fund's net asset value per unit and market price over the past year.



### Special Meeting of Unitholders

On February 4, 2003, a special meeting of unitholders was held and unitholders voted in favor of the proposed amendments to the Fund's redemption features. These amendments are as follows:

- requiring a 20 business day (previously 5 business day) notice of redemption
- changing the date of quarterly redemptions to the last day of January, April, July and October rather than calendar quarters

- changing the redemption price to NAV less \$0.80 per unit, and
- imposing a limit on redemptions to 25% of units outstanding in each quarter.

### Redemptions and Normal Course Issuer Bid

In 2003, arbitragers continued to play the spread between the Fund's net asset value and unit price without in any way materially reducing the trading discount of the Fund's units. Unitholders exercised their right to redeem on the quarterly redemption dates for a total of 874,832 units at an average cost of \$27.13 per unit compared to 2,098,233 units in 2002 at an average cost of \$26.68 per unit.

In September 2002, Citadel SMaRT implemented a normal course issuer bid, whereby the Fund could repurchase up to 809,843 units over the next twelve months. In 2002, a total of 99,400 units at an average cost of \$26.30 per unit were repurchased for cancellation under the issuer bid. With the continued wide discount to net asset value, the Fund has undertaken another normal course issuer bid which commenced on February 20, 2004. Pursuant to the issuer bid, the Fund may repurchase up to 448,358 units over the next twelve months.

### Risk Assessment

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

### Outlook for 2004

The oil and gas royalty trust sector experienced strong valuation appreciation in 2003. We do not expect a repeat of this for 2004. However, the outlook for oil and gas prices remains positive and many of the trusts have already adopted more conservative payout ratios. Given this backdrop, the Fund's current portfolio, the capital gains expected to be realized and analysts' current estimates of distributions from the portfolio, Citadel SMaRT expects to maintain its targeted monthly distribution of \$0.208 per unit in 2004.

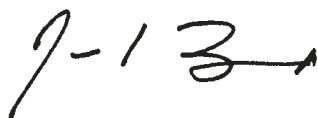
## Management's Responsibility Statement

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

CPRT maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CPRT is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

CPRT, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel CPRT Management Ltd.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel CPRT Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Citadel SMaRT Fund

We have audited the statements of net assets and investments of Citadel SMaRT Fund as at December 31, 2003 and 2002, and the statements of operations and changes in net assets for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and 2002, and the results of its operations and the changes in its net assets for the years ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

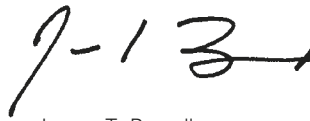
As at December 31,	2003	2002
<b>Assets</b>		
Investments, at market (cost: 2003 - \$102,505,463; 2002 - \$110,328,363)	\$ 146,958,164	\$ 132,865,607
Cash and term deposits	1,537,002	69,849,476
Revenue receivable	1,164,790	1,244,000
	<u>149,659,956</u>	<u>203,959,083</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	389,760	844,267
Redemptions payable (note 3)	–	40,450,510
Distributions payable	1,016,174	1,257,697
	<u>1,405,934</u>	<u>42,552,474</u>
<b>Net Assets representing Unitholders' Equity</b>	<b>\$ 148,254,022</b>	<b>\$ 161,406,609</b>
<b>Units outstanding</b> (note 3)	<b>4,885,451</b>	<b>6,046,622</b>
<b>Net asset value per unit</b>	<b>\$ 30.35</b>	<b>\$ 26.69</b>

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

Year Ended December 31,	2003	2002
<b>Revenue</b>		
Investment income	\$ 15,952,314	\$ 21,060,501
	15,952,314	21,060,501
<b>Expenses</b>		
Administrative and investment manager fees (note 5)	1,813,685	2,537,912
Trailer & service fees (note 6)	1,116,569	1,559,201
General and administration costs	494,969	434,841
Loan interest	–	143,510
	3,425,223	4,675,464
<b>Net investment income</b>	12,527,091	16,385,037
<b>Net realized gain on sale of investments</b> (note 7)	2,574,130	9,353,090
<b>Net realized gain (loss) on forward agreement</b> (note 7)	(4,691,251)	(3,321,175)
<b>Net change in unrealized gain on investments</b>	14,337,257	6,330,052
<b>Net change in unrealized gain on forward agreement</b>	7,578,201	10,207,449
<b>Total results of operations</b>	\$ 32,325,428	\$ 38,954,453
<b>Results of operations per unit</b> <sup>(1)</sup>		
Net investment income	\$ 2.26	\$ 2.00
Net realized gain on sale of investments	0.47	1.14
Net realized gain (loss) on forward agreement	(0.85)	(0.41)
Net change in unrealized gain on investments	2.59	0.77
Net change in unrealized gain on forward agreement	1.37	1.25
	\$ 5.84	\$ 4.75

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

## Statement Of Changes In Net Assets

Year Ended December 31,	2003	2002
<b>Net Assets – beginning of year</b>	\$ 161,406,609	\$ 210,777,291
Operations:		
Net investment income	12,527,091	16,385,037
Net realized gain on sale of investments	2,574,130	9,353,090
Net realized gain (loss) on forward agreement	(4,691,251)	(3,321,175)
Net change in unrealized gain on investments	14,337,257	6,330,052
Net change in unrealized gain on forward agreement	7,578,201	10,207,449
	32,325,428	38,954,453
Unitholder Transactions:		
Proceeds from issuance of trust units, net	–	35,250
Repurchase of trust units	(31,706,691)	(67,969,090)
	(31,706,691)	(67,933,840)
Distributions to Unitholders: (note 8)	(13,771,324)	(20,391,295)
<b>Net Assets – end of year</b>	\$ 148,254,022	\$ 161,406,609
<b>Distributions per unit</b>	\$ 2.496	\$ 2.496

see accompanying notes

## Statement Of Investments

	As at December 31, 2003			As at December 31, 2002		
	Cost	Market	% of Market	Cost	Market	% of Market
<b>Oil &amp; Gas Royalty Trusts</b>						
Acclaim Energy Trust	\$ 5,614,345	\$ 6,404,640		\$ –	\$ –	
Advantage Energy Income Fund	4,501,679	10,764,000		4,501,679	7,800,000	
APF Energy Fund Trust	5,725,811	7,524,000		5,725,811	5,874,000	
ARC Energy Trust	9,139,699	11,792,000		7,976,542	8,330,000	
Enerplus Resource Fund	5,116,459	7,870,000		6,395,574	7,012,500	
NAL Oil & Gas Trust	3,544,509	4,376,000		3,544,509	3,600,000	
Paramount Energy Trust	5,097,232	4,688,819		–	–	
Pengrowth Energy Trust	4,308,185	6,375,000		5,026,216	5,155,500	
PrimeWest Energy Trust	4,260,000	4,134,000		6,816,000	6,096,000	
Provident Energy Trust	–	–		5,479,838	6,450,000	
Shiningbank Energy Income Fund	7,587,085	11,023,696		6,966,085	8,332,500	
Ultima Energy Trust	4,764,145	7,176,000		4,764,145	5,922,500	
Vermilion Energy Trust	5,081,000	6,136,000		–	–	
Viking Energy Royalty Trust	7,047,210	6,497,500		6,516,562	7,777,000	
	71,787,359	94,761,655	63.8%	63,712,961	72,350,000	35.7%
Forward Agreement (note 4)	30,718,104	52,196,509	35.2%	46,615,402	60,515,607	29.9%
<b>Investments</b>	<b>102,505,463</b>	<b>146,958,164</b>	<b>99.0%</b>	<b>110,328,363</b>	<b>132,865,607</b>	<b>65.6%</b>
<b>Cash and Term Deposits</b>	<b>1,537,002</b>	<b>1,537,002</b>	<b>1.0%</b>	<b>69,849,476</b>	<b>69,849,476</b>	<b>34.4%</b>
<b>Total</b>	<b>\$ 104,042,465</b>	<b>\$ 148,495,166</b>	<b>100.0%</b>	<b>\$ 180,177,839</b>	<b>\$ 202,715,083</b>	<b>100.0%</b>

## Notes to the Financial Statements

December 31, 2003 and 2002

### 1. Structure of the Fund

Citadel SMaRT Fund (the "Fund" or "Citadel SMaRT") is an open-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of July 19, 2001. The Fund commenced operations on September 14, 2001, when it completed an issue of 7,600,000 units at \$25.00 per unit through an initial public offering. A further 950,000 units were issued pursuant to an over-allotment provision. The term of the Fund continues until December 31, 2013.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments and on the forward agreement. Investment transactions are recorded on the trade date. The Forward Agreement is recorded at its fair value on the valuation date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 8,550,000 trust units were issued at a price of \$25.00 per unit.

**Authorized**

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

**Issued and outstanding**

	2003		2002	
	Number	Amount	Number	Amount
Trust units – beginning of year	6,046,622	\$ 133,843,144	8,550,000	\$ 201,776,984
Issued for cash:				
Agents' fees and issue costs	–	–	–	35,250
Repurchase of trust units	(1,161,171)	(31,706,691)	(2,503,378)	(67,969,090)
Trust units – end of year	4,885,451	\$ 102,136,453	6,046,622	\$ 133,843,144

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of each such quarter. During 2003, Citadel SMaRT repurchased 286,339 trust units (2002 – 305,745) under this repurchase program.

At a special meeting held on February 4, 2003, unitholders voted in favor of the certain amendments to the Fund's redemption features. Effective February 1, 2003, unitholders who redeem are entitled to a redemption price per unit equal to the Fund's net asset value per unit less \$0.80 per unit. During 2003, a total of 874,832 units were redeemed (2002 – 2,098,233) and cancelled. The redemption payable of \$40,450,510 at December 31, 2002 reflected units redeemed as of that date. Subsequent to year end, unitholders redeemed a further 744,160 trust units pertaining to the January 31, 2004 and April 30, 2004 redemption dates.

Prior to expiry of the Fund's normal course issuer bid on September 4, 2003, the Fund had repurchased 99,400 units for cancellation as at December 31, 2002. No units were repurchased under the issuer bid in 2003. The maximum number of units available for purchase under this bid was 809,843. Subsequent to year end, the Fund implemented another normal course issuer bid which commenced on February 20, 2004 and continues for the next twelve months. Pursuant to this bid, the Fund may purchase up to 448,358 units prior to February 20, 2005.

**4. Forward Agreement**

The Fund has entered into Forward Agreements with Merrill Lynch Canada Inc. ("ML") and Bank of Montreal ("BMO") pursuant to which ML and BMO will pay the Fund an amount which equals \$17.50 for each unit currently outstanding (70% of initial capital) on the termination date in exchange for the Fund delivering to ML and BMO the equity securities in a fixed portfolio. The securities in the fixed portfolio had a cost of \$30.7 million at December 31, 2003 and was comprised of common shares of ATI Technologies Inc. (830,947 shares), Cognos Inc. (304,865 shares), Cott Corporation (171,003 shares), Inco Ltd. (199,271 shares), Masonite International Corp. (285,024 shares), Precision Drilling Corp. (97,720 shares), and Tembec Inc. (85,244 shares).

The securities in the fixed portfolio had a cost of \$46.6 million at December 31, 2002 and was comprised of common shares of ATI Technologies Inc. (830,947 shares), Biovail Corp. (89,990 shares), Celestica Inc. (45,459 shares), Cognos Inc. (304,865 shares), Cott Corporation (171,003 shares), Inco Ltd. (266,804 shares), Masonite International Corp. (285,024 shares), Precision Drilling Corp. (97,720 shares), Royal Group Technologies (159,381 shares), and Tembec Inc. (310,643 shares).

Securities in the fixed portfolio have been pledged to ML and BMO as security for the obligations of the Fund under the Forward Agreements. The Forward Agreements are each a direct obligation of ML and BMO, respectively, both companies with credit ratings of Moody's – Aa3. The Forward Agreements may be physically or cash settled at the option of the Fund. The Forward Agreements may be settled in whole or in part in respect of any valuation date by the Fund tendering to ML or BMO securities of the fixed portfolio at a price equal to the current market value of the Forward Agreements.

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**5. Administrative and Investment Manager Fees / Directors' Fees**

Citadel CPRT Management Ltd. ("CPRT") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, the administration and investment management fees are based upon 1.1% of the average daily net asset value of the Fund, payable in cash monthly in arrears. During 2003, the Fund recorded an expense of \$1,813,685 (2002 - \$2,537,912) in respect of administration and investment management fees earned during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003, included in accounts payable were amounts owed to CPRT of \$58,143 (2002 - \$122,546).

Directors of CPRT are paid a total of \$62,500 in cash as payment for their annual retainers.

## 6. Trailer and Service Fees

Citadel SMaRT pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. An annual service fee of approximately 0.43% is payable by the Fund to ML and BMO on the guaranteed value of the Forward Agreements. An additional annual service fee of 0.25% and 0.10% is payable to ML and BMO, respectively, relating to costs incurred by them under the Forward Agreements. During 2003, the Fund recorded an expense of \$617,976 (2002 - \$814,276) relating to trailer fees and \$498,593 (2002 - \$744,925) relating to service fees.

## 7. Investments

The net realized gain (loss) on the sale of investments was determined as follows:

	2003	2002
Net proceeds from the sale of securities	\$ 15,594,659	\$ 91,284,868
Less cost of securities sold:		
Investments at cost – beginning of year	63,712,961	118,976,238
Investments purchased during year	21,094,927	26,668,501
Investments at cost – end of year	(71,787,359)	(63,712,961)
Cost of investments disposed of during year	13,020,529	81,931,778
Net realized gain on sale of investments	\$ 2,574,130	\$ 9,353,090

The net realized gain on the sale of forward agreement was determined as follows:

	2003	2002
Proceeds from the sale of securities	\$ 11,206,047	\$ 35,223,672
Less cost of securities sold:		
Investments at cost – beginning of year	46,615,402	73,963,762
Investments purchased during year	–	11,196,487
Investments at cost – end of year	(30,718,104)	(46,615,402)
Cost of investments disposed of during year	15,897,298	38,544,847
Net realized gain on sale of investments	\$ (4,691,251)	\$ (3,321,175)

## 8. Cash Distributions

The Fund pays out monthly cash distributions targeted at \$0.208 per unit based upon cash distributions received by the Fund less estimated expenses. In 2002 and 2003, the Fund distributed a portion of its realized capital gains in order to supplement the distribution shortfall derived from net investment income.

	2003	2002
Net investment income for the year	\$ 12,527,091	\$ 16,385,037
Shortfall (surplus) cash for distribution in year	1,244,233	4,006,258
Cash distributions	\$ 13,771,324	\$ 20,391,295
Cash distributions per unit	\$ 2.496	\$ 2.496

## 9. Loan Payable

The Fund maintains a revolving credit facility with a Canadian chartered bank for up to a maximum amount of \$10,000,000 (2002 - \$15,000,000) of which no amount was drawn as at December 31, 2003 and 2002. Borrowings are collateralized by a demand debenture in the amount of \$50,000,000 which provides a first floating charge over the Fund's assets, excluding the fixed portfolio. The credit facility bears interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances. The credit facility is a revolving facility that will revolve until April 30, 2004 and for a further 364 days at the option of the bank.

## 10. Income Taxes

As all taxable income was allocated to the unitholders in 2003 or 2002, no provision for income taxes has been made in these financial statements.

## 11. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts payable and accrued liabilities, redemptions payable and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# MYDAS Fund

Stock symbol	MYFun (TSX)
2003 High/Low	\$26.70 - \$22.60
2003 Distribution	\$2.414 per unit
2003 Taxable Portion	56.0%
2003 Total Return	18.9%
2003 Management Expense Ratio	1.7%

MYDAS Fund (the "Fund" or "MYDAS") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 14, 2002. The Fund has a life of approximately 5 years with a termination date of June 30, 2007, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

MYDAS' investment objective is to maximize total unitholder returns by seeking to provide unitholders with stable, tax effective distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages the Fund's portfolio by rotating its investments within various asset classes comprising oil & gas royalty trusts, real estate investment trusts, income funds, limited partnerships, Canadian high yielding investment grade debt and income yielding equity securities.

Pursuant to the Fund's distribution policy, MYDAS pays monthly cash distributions targeted at \$0.1875 per trust unit, representing an annualized yield of 9.0% based upon its initial issue price of \$25.00 per unit. During 2003, MYDAS made monthly distributions at its targeted rate of \$0.1875 per unit plus eight additional top up distributions of \$0.0205 per unit commencing in May 2003 for a total of \$2.414 per unit (2002 - \$1.6875 per unit). For tax purposes these distributions were allocated as 33.7% other taxable income, 5.2% dividend income, 37.8% capital gains and 23.3% return of capital. The net effective current taxable portion of the 2003 distribution was approximately 56%.

## Investment Highlights:

	2003				2002
	Q4	Q3	Q2	Q1	Q4
Net Asset Value per Unit <sup>(1)</sup>	\$ 27.56	\$ 25.69	\$ 25.61	\$ 24.54	\$ 24.57
Market Price per Unit <sup>(1)</sup>	\$ 26.20	\$ 24.44	\$ 25.00	\$ 23.75	\$ 24.30
Trading Premium (Discount)	(4.9%)	(4.9%)	(2.4%)	(3.2%)	(1.1%)
Quarterly Distributions per Unit	\$ 0.624	\$ 0.624	\$ 0.6035	\$ 0.5625	\$ 0.5625
Trailing Yield	9.2%	9.6%	9.2%	9.5%	n/a
Market Capitalization (\$ millions)	\$ 264.2	\$ 245.7	\$ 251.8	\$ 238.7	\$ 243.3

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

## Management's Discussion & Analysis

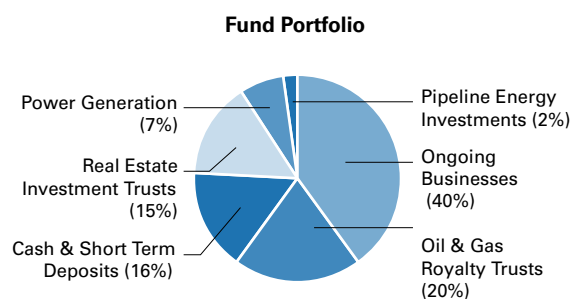
### Financial Results

MYDAS Fund experienced strong portfolio performance in its first full year of operations, with its net assets growing from \$246.0 million or \$24.57 per unit at the end of 2002 to \$277.9 million or \$27.56 per unit at the end of 2003. The growth in the Fund's net assets was led primarily by stronger valuations in its portfolio holdings of ongoing business trusts and oil & gas royalty trusts. These were the initial areas of focus when the Fund commenced operations in February 2002.

The Fund's total investment revenue grew from \$19.1 million for the period from February 14, 2002 to December 31, 2002 to \$26.9 million in 2003. Administrative and investment manager fees and trailer fees increased in relation to the greater asset base, while general and administration costs increased with the full year of operation in 2003. After total expenses of \$4.4 million (2002 - \$3.6 million), net investment income of \$22.5 million was generated for 2003 (2002 - \$15.6 million). This net investment income, coupled with realized gains of \$8.7 million and unrealized gains of \$23.2 million, generated total results of operations of \$54.4

million or \$5.42 per unit. This was over double the \$26.2 million (\$2.65 per unit) generated in 2002. Although not fully invested during 2003 (having an average cash position of over 17%), the Fund's portfolio generated sufficient cash flow to fund its targeted monthly distributions of \$0.1875 per unit plus provide unitholders with eight additional top up distributions of \$0.0205 per unit for a total of \$2.414 per unit in 2003 (2002 – \$1.6875 per unit).

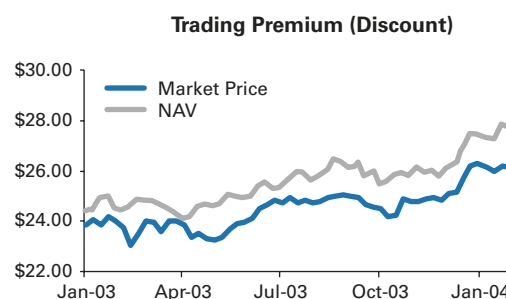
With many income funds reaching relative valuation highs throughout 2003, the Fund maintained its conservative investment strategy of taking profits and maintaining a large cash position. MYDAS consistently held cash reserves during the year with 16.5% of the portfolio in cash at December 31, 2003 (2002 – 16.5%). The chart below reflects the Fund's portfolio based on market values as at year end.



During 2003, the Fund's unit price rose from \$24.30 per unit at December 31, 2002 to \$26.20 per unit at December 31, 2003, an increase of almost 8%. In addition to its targeted monthly distribution of \$0.1875 per unit, the Fund distributed continuous top up distributions of \$0.0205 per unit commencing in May 2003, which generated a total return to unitholders of 18.9%. By comparison, the S&P/TSX income trust index increased by 38.3% on the strength of its heavier weighting in oil & gas royalty trusts, which as a sector generated a 46.4% total return in 2003. MYDAS' underweight position in royalty trusts relative to the index and its high cash position were the primary reasons for its underperformance as compared to the S&P/TSX Income Trust Index.

### Trading Premium / Discount to Net Asset Value

Although MYDAS experienced strong growth in its net asset value and unit price in 2003, its unit price traded at an average discount to net asset value of 4.1% compared to an average premium of 0.7% in 2002. During 2003, the Fund repurchased 82,400 units (2002 - 3,400 units) at an average cost of \$24.62 per unit for cancellation under its mandatory repurchase program. Under its mandatory repurchase program, MYDAS is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%. The chart below reflects the Fund's net asset value per unit and market price over the past year.



### Risk Assessment

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

### Outlook for 2004

In the current economic environment of stable inflation rates, high commodity prices and historically low interest rates, the income trust sector should continue to perform very well in 2004. Although the capital appreciation levels of 2003 are not expected to be repeated in 2004, MYDAS expects to have no difficulty in meeting its investment objectives in 2004 and paying its monthly targeted distribution rate of \$0.1875 per unit based upon its current portfolio and analysts' estimates of distributions from the portfolio. Whether or not the monthly top-up distribution of \$0.0205 per unit will continue will depend on the actual performance of MYDAS's portfolio in 2004.

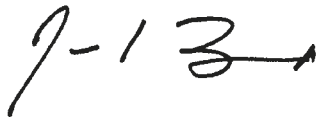
## Management's Responsibility Statement

The financial statements of MYDAS Fund have been prepared by MYDAS Management Inc. ("MMI") and approved by the Board of Directors of MMI. MMI is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

MMI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of MMI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

MMI, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
MYDAS Management Inc.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
MYDAS Management Inc.

## Auditors' Report to Unitholders

To the Unitholders of MYDAS Fund

We have audited the statements of net assets and investments of MYDAS Fund as at December 31, 2003 and 2002, and the statements of operations and changes in net assets for the year ended December 31, 2003 and for the period December 18, 2001, the date of the inception of the Fund, to December 31, 2002. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and 2002 and the results of its operations and the changes in its net assets for the year ended December 31, 2003 and for the period December 18, 2001, the date of the inception of the Fund, to December 31, 2002 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

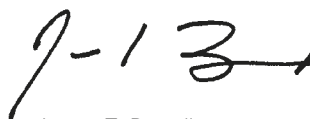
As at December 31,	2003	2002
<b>Assets</b>		
Investments, at market (cost: 2003 - \$199,686,957; 2002 - \$195,624,472)	\$ 232,226,792	\$ 204,985,702
Cash and term deposits	46,024,593	40,636,493
Revenue receivable	1,946,217	2,188,562
Accounts receivable	26,237	363,825
Prepaid expenses	6,634	5,278
	<u>280,230,473</u>	<u>248,179,860</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	262,134	279,962
Distributions payable	2,097,076	1,877,259
	<u>2,359,210</u>	<u>2,157,221</u>
<b>Net Assets representing Unitholders' Equity</b>	<u>\$ 277,871,263</u>	<u>\$ 246,022,639</u>
<b>Units outstanding</b> (note 3)	<u>10,082,096</u>	<u>10,012,046</u>
<b>Net asset value per unit</b>	<u>\$ 27.56</u>	<u>\$ 24.57</u>

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

	Year Ended December 31, 2003	For the Period December 18, 2001 to December 31, 2002
<b>Revenue</b>		
Investment income	\$ 26,929,180	\$ 19,141,811
	26,929,180	19,141,811
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	3,001,449	2,488,713
Trailer fee (note 5)	1,026,568	728,598
General and administration costs	413,094	363,625
	4,441,111	3,580,936
<b>Net investment income</b>	<b>22,488,069</b>	<b>15,560,875</b>
<b>Net realized gain on sale of investments</b> (note 6)	<b>8,730,468</b>	<b>1,269,397</b>
<b>Net change in unrealized gain on investments</b>	<b>23,178,605</b>	<b>9,361,230</b>
<b>Total results of operations</b>	<b>\$ 54,397,142</b>	<b>\$ 26,191,502</b>
<b>Results of operations per unit <sup>(1)</sup></b>		
Net investment income	\$ 2.24	\$ 1.57
Net realized gain on sale of investments	0.87	0.13
Net change in unrealized gain on investments	2.31	0.95
	\$ 5.42	\$ 2.65

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

## Statement Of Changes In Net Assets

	Year Ended December 31, 2003	For the Period December 18, 2001 to December 31, 2002
<b>Net Assets – beginning of period</b>	<b>\$ 246,022,639</b>	<b>\$ –</b>
Operations:		
Net investment income	22,488,069	15,560,875
Net realized gain on sale of investments	8,730,468	1,269,397
Net change in unrealized gain on investments	23,178,605	9,361,230
	54,397,142	26,191,502
Unitholder Transactions:		
Proceeds from issuance of trust units, net	3,769,221	236,733,948
Repurchase of trust units	(2,028,530)	(77,306)
	1,740,691	236,656,642
Distributions to Unitholders: (note 7)	(24,289,209)	(16,825,505)
<b>Net Assets – end of period</b>	<b>\$ 277,871,263</b>	<b>\$ 246,022,639</b>
<b>Distributions per unit</b>	<b>\$ 2.4140</b>	<b>\$ 1.6875</b>

see accompanying notes

## Statement Of Investments

	As at December 31, 2003			As at December 31, 2002		
	Cost	Market	% of Market	Cost	Market	% of Market
<b>Ongoing Business Trusts</b>						
Advanced Fiber Technologies Income Fund	\$ 4,250,000	\$ 5,248,750		\$ 4,250,000	\$ 4,398,750	
Arctic Glacier Income Fund	4,370,000	4,830,000		4,370,000	4,002,000	
Atlas Cold Storage Income Trust	5,013,765	2,756,535		5,013,765	4,883,625	
CCS Income Trust	2,570,940	5,984,100		2,570,940	3,296,160	
Chemtrade Logistics Income Fund	3,441,335	4,581,090		3,441,335	3,553,200	
Clearwater Seafoods Income Fund	1,442,660	1,633,200		–	–	
Consumers' Water Heater Income Fund	–	–		523,200	551,775	
Custom Direct Income Trust	3,950,000	4,092,200		–	–	
Davis + Henderson Income Fund	7,370,155	12,215,000		14,671,874	17,920,410	
Energy Savings Income Fund	3,833,040	8,445,000		3,833,040	4,020,000	
Fording Canadian Coal Trust	5,592,928	8,510,000		–	–	
Great Lakes Carbon Income Fund	4,904,985	5,291,000		–	–	
Heating Oil Partners Income Fund	4,390,000	6,233,800		13,500,000	15,970,500	
KCP Income Fund	4,475,000	5,459,500		4,475,000	5,079,125	
Livingston International Income Fund	2,076,143	3,250,000		3,633,250	3,979,500	
Menu Foods Income Fund	905,564	1,244,760		905,564	1,235,740	
PRT Forest Regeneration Income Fund	2,456,670	2,295,000		2,456,670	2,552,550	
Rogers Sugar Income Fund	5,207,744	4,230,000		3,551,744	3,548,500	
SFK Pulp Fund	6,998,053	5,529,760		5,404,000	5,512,080	
Sun Gro Horticulture Income Fund	9,642,000	7,472,550		9,642,000	10,075,890	
Swiss Water Decaffeinated Coffee Income Fund	3,850,000	5,332,250		3,850,000	4,312,000	
TransForce Income Fund	4,494,500	5,348,000		4,494,500	4,256,000	
UE Waterheater Income Fund	1,745,000	1,996,280		–	–	
	92,980,482	111,978,775	40.3%	90,586,882	99,147,805	40.4%
<b>Real Estate Investment Trusts</b>						
Firm Capital Mortgage Investment Trust	2,643,280	3,036,960		2,643,280	2,812,000	
IPC US Commercial Reit	4,003,500	4,547,500		–	–	
Morguard Reit	2,754,620	2,941,590		3,015,886	2,943,550	
Northern Property Reit	3,000,000	4,575,000		3,000,000	3,570,000	
O & Y Reit	10,633,000	11,515,000		10,633,000	9,849,000	
Royal Host Reit	5,369,700	4,351,200		5,369,700	4,956,000	
Summit Reit	7,488,000	9,443,200		7,488,000	7,867,600	
	35,892,100	40,410,450	14.5%	32,149,866	31,998,150	13.0%
<b>Oil &amp; Gas Royalty Trusts</b>						
Acclaim Energy Trust	9,127,718	10,878,240		9,127,718	8,929,222	
ARC Energy Trust	12,099,100	14,740,000		12,099,100	11,900,000	
Enerplus Resources Fund	3,800,276	5,902,500		5,067,035	5,610,000	
NAL Oil & Gas Trust	–	–		562,548	540,000	
Paramount Energy Trust	4,364,826	3,995,027		–	–	
Pengrowth Energy Trust	1,468,100	2,125,000		1,468,100	1,473,000	
PrimeWest Energy Trust	1,286,000	1,378,000		1,286,000	1,270,000	
Provident Energy Trust	–	–		9,046,388	10,435,025	
Shiningbank Energy Income Fund	2,840,000	3,728,000		2,840,000	3,030,000	
Ultima Energy Trust	3,571,299	4,492,800		3,571,299	3,708,000	
Vermilion Energy Trust	3,877,500	4,218,500		–	–	
Viking Energy Royalty Trust	5,391,950	4,520,000		3,134,800	3,181,500	
	47,826,769	55,978,067	20.1%	48,202,988	50,076,747	20.4%
<b>Power Generation Investments</b>						
Algonquin Power Income Fund	3,426,884	3,745,000		3,426,884	3,248,000	
Boralex Power Income Fund	7,500,000	7,650,000		7,500,000	7,687,500	
Clean Power Income Fund	7,545,722	7,032,500		7,545,722	6,887,500	
	18,472,606	18,427,500	6.6%	18,472,606	17,823,000	7.3%
<b>Pipeline/Energy Investments</b>						
Inter Pipeline Fund	4,515,000	5,432,000		4,515,000	4,305,000	
Pembina Pipeline Income Fund	–	–		1,697,130	1,635,000	
	4,515,000	5,432,000	2.0%	6,212,130	5,940,000	2.4%
<b>Investments</b>	199,686,957	232,226,792	83.5%	195,624,472	204,985,702	83.5%
<b>Cash and Term Deposits</b>	46,024,593	46,024,593	16.5%	40,636,493	40,636,493	16.5%
<b>Total</b>	\$ 245,711,550	\$ 278,251,385	100.0%	\$ 236,260,965	\$ 245,622,195	100.0%

## Notes to the Financial Statements

December 31, 2003 and 2002

### 1. Structure of the Fund

MYDAS Fund (the "Fund" or "MYDAS") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 18, 2001 and amended February 14, 2002. The Fund commenced operations on February 14, 2002, when it completed an issue of 9,000,000 units at \$25.00 per unit through an initial public offering. A further 905,361 trust units were issued pursuant to an over-allotment provision. The term of the Fund continues until June 30, 2007.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 9,905,361 trust units were issued at a price of \$25.00 per unit.

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003		2002	
	Number	Amount	Number	Amount
Trust units – beginning of period	10,012,046	\$ 236,656,642	–	\$ –
Issued for cash:				
Initial public offering	–	–	9,000,000	225,000,000
Over-allotment provision	–	–	905,631	22,640,775
Agents' fees and issue costs	–	–	–	(13,645,929)
Issued for services (note 4)	117,183	2,867,554	95,536	2,388,400
Issued under DRIP	35,267	901,666	14,279	350,702
Repurchase of trust units	(82,400)	(2,028,530)	(3,400)	(77,306)
Trust units – end of period	10,082,096	\$ 238,397,332	10,012,046	\$ 236,656,642

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% of the total number of units outstanding at the beginning of each calendar quarter. During 2003, MYDAS repurchased 82,400 units (2002 - 3,400 units) under this program.

Unitholders of MYDAS can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of MYDAS at net asset value. In 2003, 35,267 units (2002 - 14,279 units) were issued under the DRIP.

#### 4. Administrative and Investment Manager Fees / Directors' Fees

MYDAS Management Inc. ("MMI") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administration and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2003, the Fund issued 114,508 trust units and recorded an expense of \$3,001,449 (2002 - 93,036 trust units and recorded an expense of \$2,488,713) in respect of the administrative and investment management fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003, included in accounts receivable were amounts owed from MMI of \$26,237 (2002 - \$39,673 in accounts payable).

Directors of MMI received a total of 2,675 units in 2003 (2002 - 2,500 units) as payment for their annual retainers.

#### 5. Trailer Fee

MYDAS pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2003, the Fund recorded an expense of \$1,026,568 (2002 - \$728,598) relating to the trailer fee.

#### 6. Investments

The net realized gain on the sale of investments was determined as follows:

	2003	2002
Net proceeds from the sale of securities	\$ 46,392,879	\$ 30,050,026
Less cost of securities sold:		
Investments at cost – beginning of period	195,624,472	–
Investments purchased during period	41,724,896	224,405,101
Investments at cost – end of period	(199,686,957)	(195,624,472)
Cost of investments disposed of during period	37,662,411	28,780,629
Net realized gain on sale of investments	\$ 8,730,468	\$ 1,269,397

#### 7. Cash Distributions

The Fund pays out monthly cash distributions targeted at \$0.1875 per unit based upon cash distributions received by the Fund less estimated expenses. With the surplus cash generated from the portfolio in 2003, the Fund provided additional monthly top up distributions of \$0.0205 per unit commencing May 2003.

	2003	2002
Net investment income for the period	\$ 22,488,069	\$ 15,560,875
Add fees paid by issuance of trust units	2,867,557	2,546,005
Surplus cash not distributed in period	(1,066,417)	(1,280,375)
Cash distributions	\$ 24,289,209	\$ 16,825,505
Cash distributions per unit	\$ 2.414	\$ 1.6875

#### 8. Income Taxes

As all taxable income was allocated to the unitholders in 2003 and 2002, no provision for income taxes has been made in these financial statements.

#### 9. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, accounts receivable, prepaid expenses, revenue receivable, accounts payable and accrued liabilities, and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# Citadel Multi-Sector Income Fund

<b>Stock symbol</b>	<b>CMS.un (TSX)</b>
<b>2003 High/Low</b>	<b>\$10.50 - \$9.25</b>
<b>2003 Distribution</b>	<b>\$0.7497 per unit</b>
<b>2003 Taxable Portion</b>	<b>42.0%</b>
<b>2003 Total Return</b>	<b>8.9%</b>
<b>2003 Management Expense Ratio</b>	<b>1.4%</b> <b>(1.6% annualized)</b>

Citadel Multi-Sector Income Fund (the "Fund" or "Multi-Sector") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 14, 2003. The Fund has a life of approximately 6 years with a termination date of December 31, 2008, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Multi-Sector's investment objective is to maximize total unitholder returns by seeking to provide unitholders with stable, tax effective distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages the Fund's portfolio by rotating its investments within the various asset classes comprising Canadian income funds and Canadian high yielding investment grade debt.

Pursuant to the Fund's distribution policy, Citadel Multi-Sector pays monthly cash distributions targeted at \$0.0833 per trust unit, representing an annualized yield of 10.0% based upon its initial issue price of \$10.00 per unit. The Fund commenced distributions to unitholders with an April 30, 2003 record date and thereafter made monthly distributions for a total of \$0.7497 per unit in 2003. For tax purposes these distributions were allocated as 31.2% other taxable income, 3.8% dividend income, 15.6% capital gains and 49.4% return of capital. The net effective current taxable portion of the 2003 distribution was approximately 42%.

## Investment Highlights

	2003			
	Q4	Q3	Q2	Q1
Net Asset Value per Unit <sup>(1)</sup>	\$ 10.51	\$ 9.70	\$ 9.50	\$ 9.47
Market Price per Unit <sup>(1)</sup>	\$ 10.09	\$ 9.69	\$ 9.85	\$ 9.99
Trading Premium (Discount)	(4.0%)	–	3.7%	5.5%
Quarterly Distributions per Unit <sup>(2)</sup>	\$ 0.2499	\$ 0.2499	\$ 0.2499	n/a
Market Capitalization (\$ millions)	\$ 281.9	\$ 269.8	\$ 273.3	\$ 276.4

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

<sup>(2)</sup> First monthly distribution had a record date of April 30, 2003 and was paid May 15, 2003

## Management's Discussion & Analysis

### Financial Results

Upon closing of Citadel Multi-Sector Income Fund's initial public offering on February 14, 2003 and the exercise of an over-allotment option on March 14, 2003, net proceeds after agents' fees and issue costs of \$261.0 million were available for investment. With evidence of a pullback in income trust valuations in the latter part of the first quarter of 2003, the proceeds were cautiously and selectively deployed with a view to preserving capital over the longer term. The Fund focused its investment activity on both business trusts and royalty trusts which ultimately accounted for almost half of the total portfolio. At December 31, 2003 Citadel Multi-

Sector had deployed 83.5% of its initial net proceeds and held cash reserves available for future investment of \$48.6 million.

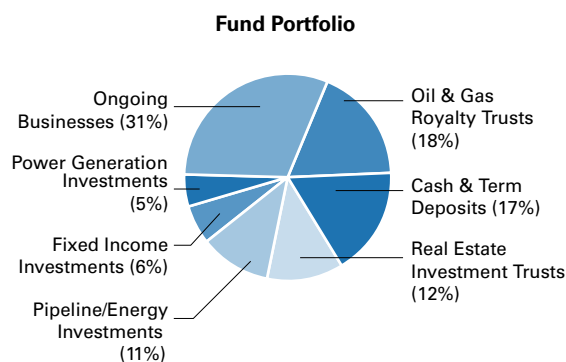
During 2003, all sectors of the Fund's portfolio experienced tremendous growth, especially in the pipeline/energy investments and oil & gas royalty trusts. As a result, the Fund's net asset value grew from \$9.45 per unit at inception to \$10.51 per unit at year end of 2003, an appreciation of over 11%.

Citadel Multi-Sector's total revenue for the ten and one half months of operations from February 14, 2003 to December

31, 2003 was \$23.7 million. Administrative and investment manager fees and trailer fees of \$2.7 million and \$0.8 million respectively are calculated as a percentage the Fund's net asset value. After total expenses of \$3.9 million, the Fund produced net investment income of \$19.8 million for 2003. Although only partially invested throughout 2003, the Fund generated sufficient cash flow to fund its targeted monthly distributions of \$0.0833 per unit for a total distribution in 2003 of \$0.7497 per unit.

The Fund made a number of changes to its portfolio during the year, as smaller non-core positions received on the exchange offer that was part of the Fund's initial public offering were disposed of and new core holdings were acquired. Net dispositions resulted in realized gains during the year of \$3.2 million, combined with net investment income of \$19.3 million and unrealized gains of \$27.6 million, generated total results of operations of \$50.6 million or \$1.83 per unit.

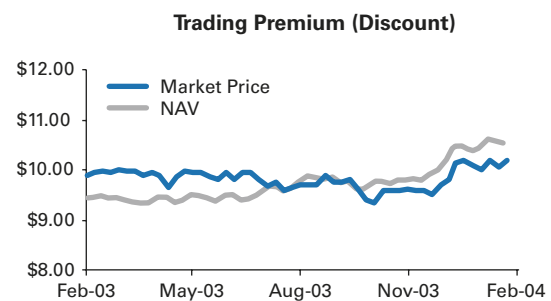
During 2003, the Fund's unit price increased from \$10.00 per unit at issuance to \$10.09 per unit at December 31, 2003. Inclusive of distributions, the Fund generated a total return of 8.9% during the stub period from inception in mid-February 2003 to December 31, 2003. By comparison, the S&P/TSX income trust index increased by 35.3% on the strength of its heavy weighting in oil & gas royalty trusts. Citadel Multi-Sector's conservative investment strategy of underweighting the oil & gas royalty trusts and maintaining a large cash position relative to the index were the primary reasons for the Fund's underperformance in 2003 as compared with the return provided by the S&P/TSX Income Trust Index.



### Trading Premium / Discount to Net Asset Value

Citadel Multi-Sector's unit price traded above its net asset value for most of the year with an average premium to net asset value of 1.4%. During 2003, the Fund repurchased no units for cancellation under its mandatory repurchase program. Under its mandatory repurchase program, Citadel Multi-Sector is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

At December 31, 2003 Multi-Sector's net asset value per unit and market price were \$10.51 and \$10.09 respectively, representing a 4% discount to net asset value. The chart below reflects the Fund's net asset value per unit and market price since its inception on February 14, 2003.



### Risk Assessment

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

### Outlook for 2004

In the current economic environment of stable inflation rates, high commodity prices and historically low interest rates, the income trust sector should perform very well in 2004. Although the capital appreciation levels of 2003 are not expected to be repeated in 2004, Citadel Multi-Sector expects to be able to meet its targeted monthly distribution rate of \$0.0833 per unit based on its current portfolio and analysts' estimates of distributions from its portfolio.

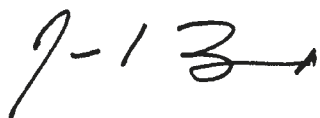
## Management's Responsibility Statement

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

CMSI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CMSI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

CMSI, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel Multi-Sector Management Inc.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel Multi-Sector Management Inc.

## Auditors' Report to Unitholders

To the Unitholders of Citadel Multi-Sector Income Fund

We have audited the statements of net assets and investments of Citadel Multi-Sector Income Fund as at December 31, 2003, and the statements of operations and changes in net assets for the period December 12, 2002, the date of the inception of the Fund, to December 31, 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and the results of its operations and the changes in its net assets for the period December 12, 2002, the date of the inception of the Fund, to December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

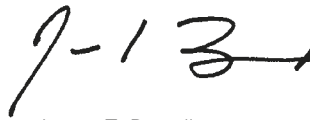
As at December 31,	2003
<b>Assets</b>	
Investments, at market (cost: 2003 - \$217,449,980)	\$ 245,050,950
Cash and term deposits	48,585,286
Revenue receivable	2,670,991
Accounts receivable	27,854
Prepaid expenses	8,112
	296,343,193
<b>Liabilities</b>	
Accounts payable and accrued liabilities	279,354
Distributions payable	2,327,029
	2,606,383
<b>Net Assets representing Unitholders' Equity</b>	\$ 293,736,810
<b>Units outstanding</b> (note 3)	27,935,523
<b>Net asset value per unit</b>	\$ 10.51

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

	For the Period December 12, 2002 to December 31, 2003
<b>Revenue</b>	
Investment income	\$ 23,659,066
	23,659,066
<b>Expenses</b>	
Administrative and investment manager fees (note 4)	2,745,727
Trailer fee (note 5)	807,481
General and administration costs	349,689
	3,902,897
<b>Net investment income</b>	19,756,169
<b>Net realized gain on sale of investments</b> (note 6)	3,206,800
<b>Net change in unrealized gain on investments</b>	27,600,970
<b>Total results of operations</b>	<b>\$ 50,563,939</b>
<b>Results of operations per unit</b> <sup>(1)</sup>	
Net investment income	\$ 0.71
Net realized gain on sale of investments	0.12
Net change in unrealized gain on investments	1.00
	<b>\$ 1.83</b>

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

## Statement Of Changes In Net Assets

	For the Period December 12, 2002 to December 31, 2003
<b>Net Assets – beginning of period</b>	<b>\$ –</b>
Operations:	
Net investment income	19,756,169
Net realized gain on sale of investments	3,206,800
Net change in unrealized gain on investments	27,600,970
	50,563,939
Unitholder Transactions:	
Proceeds from issuance of trust units, net	264,022,057
Distributions to Unitholders: (note 7)	(20,849,186)
<b>Net Assets – end of period</b>	<b>\$ 293,736,810</b>
<b>Distributions per unit</b>	<b>\$ 0.7497</b>

see accompanying notes

## Statement Of Investments

	As at December 31, 2003		
	Cost	Market	% of Market
<b>Fixed Income Investments</b>			
Pembina Pipeline Income Fund 7.35%	\$ 7,000,000	\$ 7,482,300	
Retirement Residences Reit 8.25%	10,000,000	10,800,000	
	17,000,000	18,282,300	6.2%
<b>Ongoing Business Trusts</b>			
ACS Media Income Trust	4,200,493	4,471,200	
Advanced Fiber Technologies Income Fund	3,163,853	3,603,730	
Arctic Glacier Income Fund	4,216,147	4,796,274	
Atlas Cold Storage Income Trust	3,024,738	1,740,344	
Bell Nordiq Income Fund	1,379,494	1,729,612	
Chemtrade Logistics Income Fund	7,403,268	8,925,725	
Cineplex Galaxy Income Fund	2,870,336	2,922,940	
Clearwater Seafoods Income Fund	3,302,639	3,737,016	
Custom Direct Income Fund	4,999,450	5,180,000	
Fording Canadian Coal Trust	6,499,974	9,890,000	
Menu Foods Income Fund	1,357,150	1,370,340	
Prizm Canadian Income Fund	4,400,000	4,598,000	
ROW Entertainment Income Fund	4,001,600	4,264,000	
Rogers Sugar Income Fund	6,427,496	5,346,000	
SFK Pulp Fund	8,244,051	6,460,000	
Specialty Foods Group Income Fund	6,554,800	5,530,000	
Sun Gro Horticulture Income Fund	4,680,247	4,030,000	
TransForce Income Fund	9,028,759	11,364,500	
UE Waterheater Income Fund	1,810,000	2,070,640	
	87,564,495	92,030,321	31.4%
<b>Real Estate Investment Trusts</b>			
Borealis Retail Reit	6,252,815	7,228,398	
Calloway Reit	4,504,500	5,354,652	
Dundee Reit	6,388,200	7,371,000	
InnVest Reit	4,559,717	5,529,000	
IPC US Income Commercial Reit	4,814,541	5,202,340	
RioCan Reit	3,808,875	4,518,182	
	30,328,648	35,203,572	12.0%
<b>Oil &amp; Gas Royalty Trusts</b>			
Acclaim Energy Trust	4,318,989	5,280,000	
ARC Energy Trust	7,481,547	9,225,265	
Baytex Energy Trust	3,902,474	4,405,100	
Enerplus Resources Fund	3,840,965	5,333,223	
Paramount Energy Trust	10,567,626	9,466,909	
Pengrowth Energy Trust	3,327,676	4,675,000	
Shiningbank Energy Income Fund	4,326,788	5,368,022	
Ultima Energy Trust	3,497,064	4,185,792	
Vermilion Energy Trust	4,230,000	4,602,000	
Viking Energy Royalty Trust	1,317,584	1,063,737	
	46,810,713	53,605,048	18.3%
<b>Power Generation Investments</b>			
Algonquin Power Income Fund	5,508,178	6,317,526	
Boralex Power Income Fund	2,244,449	2,274,549	
Clean Power Income Fund	3,911,247	4,917,990	
	11,663,874	13,510,065	4.6%
<b>Pipeline/Energy Investments</b>			
CCS Income Trust	6,196,800	7,875,100	
Heating Oil Partners Income Fund	5,485,050	6,517,800	
Inter Pipeline Income Fund	4,466,744	5,592,244	
Superior Plus Income Fund	3,937,656	4,875,400	
Trinidad Energy Services Income Fund	3,996,000	7,559,100	
	24,082,250	32,419,644	11.0%
<b>Investments</b>	217,449,980	245,050,950	83.5%
<b>Cash and Term Deposits</b>	48,585,286	48,585,286	16.5%
<b>Total</b>	\$ 266,035,266	\$ 293,636,236	100.0%

## Notes to the Financial Statements

December 31, 2003

### 1. Structure of the Fund

Citadel Multi-Sector Income Fund (the "Fund" or "Citadel Multi-Sector") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 12, 2002 and amended February 14, 2003. The Fund commenced operations on February 14, 2003, when it completed an issue of 27,055,273 units at \$10.00 per unit through an initial public offering. A further 569,958 trust units were issued pursuant to the over-allotment provision. The term of the Fund continues until December 31, 2008.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 27,625,231 trust units were issued at a price of \$10.00 per unit.

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003	
	Number	Amount
Trust units – beginning of period	–	\$ –
Issued for cash:		
Initial public offering	27,055,273	270,552,730
Over-allotment provision	569,958	5,699,580
Agents' fees and issue costs	–	(15,322,105)
Issued for services (note 4)	262,860	2,628,600
Issued under DRIP	47,432	463,252
Trust units – end of period	27,935,523	\$ 264,022,057

#### CMS.un

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of each such quarter. During 2003, Citadel Multi-Sector repurchased no trust units under this program.

Unitholders of Citadel Multi-Sector can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Citadel Multi-Sector at net asset value. In 2003, 47,432 units were issued under the DRIP.

#### 4. Administrative and Investment Manager Fees / Directors' Fees

Citadel Multi-Sector Management Inc. ("CMSI") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administration and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2003, a total of 256,610 units were issued and the Fund recorded an expense of \$2,745,727 in respect of the administrative and investment management fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003, included in accounts receivable were amounts owed from CMSI of \$27,854.

Directors of CMSI received a total of 6,250 units in 2003 as payment for their annual retainers.

#### 5. Trailer Fee

Citadel Multi-Sector pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2003, the Fund recorded an expense of \$807,481 relating to the trailer fee.

#### 6. Investments

The net realized gain on the sale of investments was determined as follows:

	2003
Net proceeds from the sale of securities	\$ 72,260,370
Less cost of securities sold:	
Investments at cost – beginning of period	–
Investments purchased during period	286,503,550
Investments at cost – end of period	(217,449,980)
Cost of investments disposed of during period	69,053,570
Net realized gain on sale of investments	\$ 3,206,800

#### 7. Cash Distributions

The Fund pays out monthly cash distributions targeted at \$0.0833 per unit based upon cash distributions received by the Fund less estimated expenses.

	2003
Net investment income for the period	\$ 19,756,169
Add fees paid by issuance of units	2,620,787
Surplus cash not distributed in period	(1,527,770)
Cash distributions	\$ 20,849,186
Cash distributions per unit	\$ 0.7497

#### 8. Income Taxes

As all taxable income was allocated to the unitholders in 2003, no provision for income taxes has been made in these financial statements.

#### 9. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, accounts receivable, revenue receivable, prepaid expenses, accounts payable and accrued liabilities, and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# Series S-1 Income Fund

<b>Stock symbol</b>	<b>SRC.un (TSX)</b>
<b>2003 High/Low</b>	<b>\$11.00 - \$9.34</b>
<b>2003 Distribution</b>	<b>\$0.375 per unit</b>
<b>2003 Taxable Portion</b>	<b>32.0%</b>
<b>2003 Total Return</b>	<b>11.1%</b>
<b>2003 Management Expense Ratio</b>	<b>0.9%</b> <b>(1.6% annualized)</b>

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on June 12, 2003. The Fund has a life of approximately 5 years with a termination date of December 31, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Series S-1's investment objective is to provide investors with highly stable and sustainable monthly cash distributions derived from an actively managed and diversified portfolio of income producing investments consisting, in varying amounts, of publicly traded units of Canadian income funds and Canadian high yielding investment grade debt, while at all times maintaining an SR-1 stability rating as provided by Standard & Poor's.

Pursuant to the Fund's distribution policy, Series S-1 pays monthly cash distributions targeted at \$0.075 per trust unit, representing an annualized yield of 9.0% based upon its initial issue price of \$10.00 per unit. The Fund commenced distributions with an August 31, 2003 record date and thereafter made monthly distributions at its targeted rate of \$0.075 per unit for a total of \$0.375 per unit in 2003. For tax purposes these distributions were allocated as 24.8% other taxable income, 7.1% dividend income, 4.6% capital gains and 63.5% return of capital. The net effective current taxable portion of the 2003 distribution was approximately 32%.

## Investment Highlights

	2003		
	Q4	Q3	Q2
Net Asset Value per Unit <sup>(1)</sup>	\$ 10.57	\$ 9.77	\$ 9.56
Market Price per Unit <sup>(1)</sup>	\$ 10.65	\$ 9.97	\$ 10.17
Trading Premium (Discount)	0.1%	2.0%	6.4%
Quarterly Distributions per Unit <sup>(2)</sup>	\$ 0.225	\$ 0.15	n/a
Market Capitalization (\$ millions)	\$ 368.6	\$ 343.9	\$ 330.7

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

<sup>(2)</sup> First monthly distribution had a record date of August 31, 2003 and was paid September 15, 2003

## Management's Discussion & Analysis

### Financial Results

Upon closing of Series S-1's initial public offering on June 12, 2003 and the exercise of an over-allotment option on July 2, 2003, net proceeds after agents' fees and issue costs of \$324.8 million were available for investment. The majority of the net proceeds were deployed during the first few months of operations with a focus on the ongoing business trusts and power generation trusts. By end of 2003, Series S-1's had deployed 89.9% of its initial net proceeds and main-

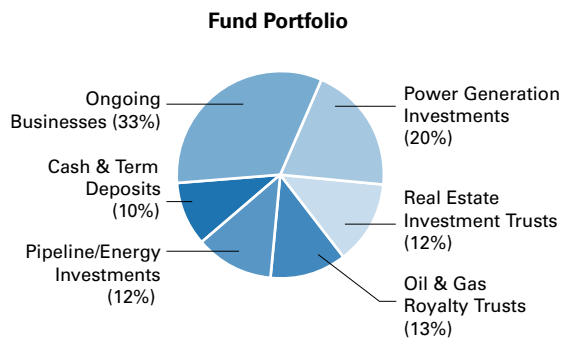
tained available cash of \$37.1 million for further investment opportunities. The chart below reflects the Fund's portfolio based on market values as at year end.

Since inception, all sectors of the Fund's portfolio experienced solid gains as the overall income fund sector saw improved valuations. As a result, the Fund's net asset value grew from \$9.45 per unit at inception to \$10.57 per unit at year end of 2003, an appreciation of over 11%.

Series S-1's total revenue for the six and one half months of operations from June 12, 2003 to December 31, 2003 was \$18.5 million. Administrative and investment manager fees and trailer fees of \$2.1 million and \$0.7 million respectively are calculated as a percentage of the Fund's net asset value. After total expenses of \$3.1 million, net investment income of \$15.4 million was generated for 2003. Although not fully invested during 2003, the Fund generated sufficient cash flow to fund its targeted monthly distributions of \$0.075 per unit.

Throughout the year, the Fund continued to rationalize its portfolio by disposing of smaller non-core positions received on the exchange offer that was part of the Fund's initial public offering and by adding new core holdings. Net dispositions resulted in realized gains during the year of \$0.6 million. Combined with net investment income of \$15.4 million and unrealized gains of \$35.5 million, total results of operations of \$51.5 million or \$1.51 per unit were generated for 2003.

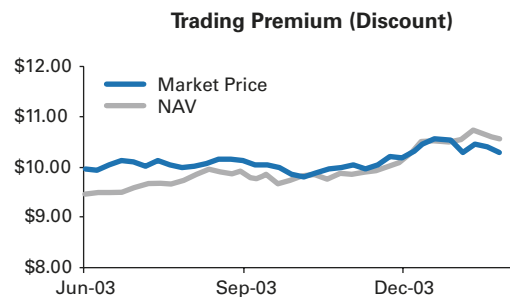
During 2003, the Fund's unit price remained above the \$10.00 per unit issuance price closing the year at \$10.65 per unit. Combined with distributions for 2003 totaling \$0.375 per unit, the Fund generated a total return of 11.1% for the stub period in 2003. This compares to a return of 22.4% for the S&P/TSX Income Trust Index for the comparable period. Series S-1's underperformance relative to the index was due to its high cash balance, underweighting in the oil and gas trusts and the less volatile nature of its SR-1 rated portfolio.



**Trading Premium / Discount to Net Asset Value**

Series S-1's market price traded slightly above its net asset value during the period since inception with an average premium to net asset value of 2.4%. During 2003, the Fund repurchased no units for cancellation under its mandatory repurchase program. Under its mandatory repurchase program, Series S-1 is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

At December 31, 2003 Series S-1's net asset value per unit and market price were \$10.57 and \$10.65 respectively, representing a 0.1% premium to net asset value. The chart below reflects the Fund's net asset value per unit and market price since its inception on June 12, 2003.



**Risk Assessment**

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

**Outlook for 2004**

The current combination of stable inflation, high commodity prices and historically low interest rates provide a favourable environment and positive outlook for the income trust sector. With its less volatile SR-1 stability rated portfolio, Series S-1 expects to have no difficulty in maintaining its current monthly distribution rate of \$0.075 per unit throughout 2004 based on the Fund's current portfolio and analysts' estimates of distributions from the portfolio.

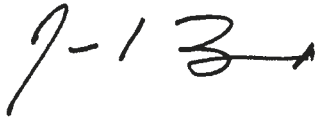
## Management's Responsibility Statement

The financial statements of Series S-1 Income Fund have been prepared by Citadel Series Management Ltd. ("SML") and approved by the Board of Directors of SML. SML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

SML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of SML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

SML, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel Series Management Ltd.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel Series Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Series S-1 Income Fund

We have audited the statements of net assets and investments of Series S-1 Income Fund as at December 31, 2003, and the statements of operations and changes in net assets for the period April 17, 2003, the date of the inception of the Fund, to December 31, 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and the results of its operations and the changes in its net assets for the period April 17, 2003, the date of the inception of the Fund, to December 31, 2003 in accordance with Canadian generally accepted accounting principles.



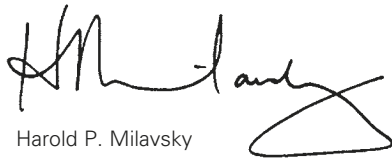
Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

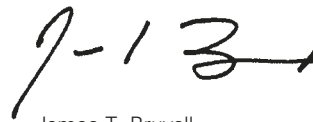
As at December 31,	2003
<b>Assets</b>	
Investments, at market (cost: 2003 - \$293,452,436)	\$ 328,955,356
Cash and term deposits	37,050,895
Revenue receivable	2,652,549
Prepaid expenses	30,065
	368,688,865
<b>Liabilities</b>	
Accounts payable and accrued liabilities	370,228
Distributions payable	2,595,731
	2,965,959
<b>Net Assets representing Unitholders' Equity</b>	\$ 365,722,906
<b>Units outstanding</b> (note 3)	34,609,751
<b>Net asset value per unit</b>	\$ 10.57

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

	For the Period April 17, 2003 to December 31, 2003
<b>Revenue</b>	
Investment income	\$ 18,501,436
	18,501,436
<b>Expenses</b>	
Administrative and investment manager fees (note 4)	2,138,994
Trailer fee (note 5)	691,018
General and administration costs	247,262
	3,077,274
<b>Net investment income</b>	15,424,162
<b>Net realized gain on sale of investments</b> (note 6)	599,878
<b>Net change in unrealized gain on investments</b>	35,502,920
<b>Total results of operations</b>	<b>\$ 51,526,960</b>
<b>Results of operations per unit <sup>(1)</sup></b>	
Net investment income	\$ 0.45
Net realized gain on sale of investments	0.02
Net change in unrealized gain on investments	1.04
	<b>\$ 1.51</b>

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

## Statement Of Changes In Net Assets

	For the Period April 17, 2003 to December 31, 2003
<b>Net Assets – beginning of period</b>	<b>\$ –</b>
Operations:	
Net investment income	15,424,162
Net realized gain on sale of investments	599,878
Net change in unrealized gain on investments	35,502,920
	51,526,960
Unitholder Transactions:	
Proceeds from issuance of trust units, net	327,144,774
Distributions to Unitholders: (note 7)	(12,948,829)
<b>Net Assets – end of period</b>	<b>\$ 365,722,906</b>
<b>Distributions per unit</b>	<b>\$ 0.375</b>

*see accompanying notes*

## Statement Of Investments

	As at December 31, 2003		
	Cost	Market	% of Market
<b>Ongoing Business Trusts</b>			
ACS Media Income Fund	\$ 4,755,000	\$ 5,400,000	
Amtelecom Income Fund	5,249,225	5,747,500	
Arctic Glacier Income Fund	5,718,069	6,195,000	
Bell Nordiq Income Fund	2,137,105	2,354,069	
Chemtrade Logistics Income Fund	7,852,634	9,386,000	
Clearwater Seafoods Income Fund	7,461,912	7,200,000	
Consumers' Waterheater Income Fund	4,763,075	5,364,000	
Custom Direct Income Fund	7,000,000	7,252,000	
Fording Canadian Coal Trust	2,468,697	4,558,370	
KCP Income Fund	5,037,748	4,880,000	
Noranda Income Fund	12,560,209	14,782,800	
Rogers Sugar Income Fund	6,421,230	5,580,000	
Royal LePage Franchise Facilities Fund	9,250,000	10,036,250	
SFK Pulp Fund	6,320,945	6,080,000	
Specialty Foods Group Income Fund	5,030,513	3,950,000	
Sun Gro Horticulture Income Fund	4,846,342	4,650,000	
TransForce Income Fund	4,919,021	5,958,245	
UE Waterheater Income Fund	4,582,000	5,241,808	
Yellow Pages Income Fund	6,520,000	7,563,200	
	112,893,725	122,179,242	33.4%
<b>Real Estate Investment Trusts</b>			
Borealis Retail Reit	8,000,000	9,336,000	
Dundee Reit	8,126,642	9,360,000	
InnVest Reit	6,604,971	8,379,000	
O & Y Reit	4,877,617	5,287,500	
Retirement Residences Reit	4,799,089	5,975,250	
RioCan Reit	5,562,176	6,120,000	
	37,970,495	44,457,750	12.1%
<b>Oil &amp; Gas Royalty Trusts</b>			
Acclaim Energy Trust	5,512,410	6,044,088	
ARC Energy Trust	14,711,885	17,245,800	
Enerplus Resources Fund	5,394,211	6,886,250	
Pengrowth Energy Trust	8,056,591	10,200,000	
Ultima Energy Trust	4,638,849	5,561,712	
	38,313,946	45,937,850	12.6%
<b>Power Generation Investments</b>			
Algonquin Power Income Fund	8,998,383	9,951,000	
Borex Power Income Fund	5,628,324	5,712,000	
Calpine Power Income Fund	10,303,778	11,365,200	
Clean Power Income Fund	14,039,535	13,580,000	
Innergex Power Income Fund	7,250,220	8,260,000	
Northland Power Income Fund	4,871,328	5,032,000	
TransAlta Power, L.P.	15,810,000	18,071,000	
	66,901,568	71,971,200	19.7%
<b>Pipeline/Energy Investments</b>			
Heating Oil Partners Income Fund	6,704,085	7,597,000	
Inter Pipeline Fund	10,522,192	12,841,714	
Keyspan Facilities Income Fund	6,163,223	7,035,000	
Superior Plus Income Fund	13,983,202	16,935,600	
	37,372,702	44,409,314	12.1%
<b>Investments</b>			
	293,452,436	328,955,356	89.9%
<b>Cash and Term Deposits</b>			
	37,050,895	37,050,895	10.1%
<b>Total</b>	<b>\$ 330,503,331</b>	<b>\$ 366,006,251</b>	<b>100.0%</b>

## Notes to the Financial Statements

December 31, 2003

### 1. Structure of the Fund

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of April 17, 2003 and amended June 12, 2003. The Fund commenced operations on June 12, 2003, when it completed an issue of 32,500,000 trust units at \$10.00 per unit through an initial public offering. A further 1,876,000 trust units were issued pursuant to the over-allotment provision. The term of the Fund continues until December 31, 2009.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 34,376,000 trust units were issued at a price of \$10.00 per unit.

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003	
	Number	Amount
Trust units – beginning of period	–	\$ –
Issued for cash:		
Initial public offering	32,500,000	325,000,000
Over-allotment provision	1,876,000	18,760,000
Issued for services (note 4)	206,156	2,061,560
Agents' fees and issue costs	–	(18,951,625)
Issued under DRIP	27,595	274,839
Trust units – end of period	34,609,751	\$ 327,144,774

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of each such quarter. During 2003, Series repurchased no trust units under this program.

Unitholders of Series S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Series S-1 at net asset value. In 2003, 27,595 units were issued under the DRIP.

#### 4. Administrative and Investment Manager Fees / Directors' Fees

Citadel Series Management Ltd. ("SML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administration and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund payable in units monthly in arrears. During 2003, the Fund issued 199,906 trust units and recorded an expense of \$2,138,994 in respect of the administrative and investment management fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003, included in accounts payable were amounts owed to SML of \$24,132.

Directors of SML received a total of 6,250 units in 2003 as payment for their annual retainers.

#### 5. Trailer Fee

Series S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2003, the Fund recorded an expense of \$691,018 relating to the trailer fee.

#### 6. Investments

The net realized gain on the sale of investments was determined as follows:

	2003
Net proceeds from the sale of securities	\$ 22,331,752
Less cost of securities sold:	
Investments at cost – beginning of period	–
Investments purchased during period	315,184,310
Investments at cost – end of period	(293,452,436)
Cost of investments disposed of during period	21,731,874
Net realized gain on sale of investments	\$ 599,878

#### 7. Cash Distributions

The Fund pays out monthly cash distributions targeted at \$0.375 per unit based upon cash distributions received by the Fund less estimated expenses.

	2003
Net investment income for the period	\$ 15,424,162
Add fees paid by issuance of units	2,032,914
Surplus cash not distributed in period	(4,508,247)
Cash distributions	\$ 12,948,829
Cash distributions per unit	\$ 0.375

#### 8. Income Taxes

As all taxable income was allocated to the unitholders in 2003, no provision for income taxes has been made in these financial statements.

#### 9. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, prepaid expenses, accounts payable and accrued liabilities, and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# Citadel Income & Growth Fund

<b>Stock symbol</b>	<b>CIFun (TSX)</b>
<b>2003 High/Low</b>	<b>\$10.72 - \$9.70</b>
<b>2003 Distribution</b>	<b>\$0.1416 per unit</b>
<b>2003 Taxable Portion</b>	<b>20.0%</b>
<b>2003 Total Return</b>	<b>7.6%</b>
<b>2003 Management Expense Ratio</b>	<b>0.4%</b> <b>(1.8% annualized)</b>

Citadel Income & Growth Fund (the "Fund" or "Citadel Income & Growth") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on October 16, 2003. The Fund has a life of approximately 6 and one half years with a termination date of June 30, 2010, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

Citadel Income & Growth's investment objective is to provide investors with monthly cash distributions while maximizing total return by investing in income funds with growth potential as well as in other income generating equity securities and common shares.

Pursuant to the Fund's distribution policy, the Fund will pay a monthly distribution of \$0.0708 per trust unit for the first 12 months, which represents an annual yield of 8.5% based upon the initial issue price of \$10.00 per unit. Annually thereafter, the Fund will announce its monthly distribution amount for the next 12 months. The first distribution was paid to unitholders of record on November 30, 2003 with total distributions of \$0.1416 per unit in 2003. For tax purposes these distributions were allocated as 5.5% other taxable income, 5.5% dividend income, 21.0% capital gains and 68.0% return of capital. The net effective taxable portion of the 2003 distribution was approximately 20%.

## Investment Highlights

	2003
	Q4
Net Asset Value per Unit <sup>(1)</sup>	\$ 10.22
Market Price per Unit <sup>(1)</sup>	\$ 10.40
Trading Premium (Discount)	1.8%
Quarterly Distributions per Unit <sup>(2)</sup>	\$ 0.1416
Market Capitalization (\$ millions)	\$ 152.0

<sup>(1)</sup> Net asset value and market price per unit are based on quarter end values.

<sup>(2)</sup> First monthly distribution had a record date of November 30, 2003 and was paid December 15, 2003.

## Management's Discussion & Analysis

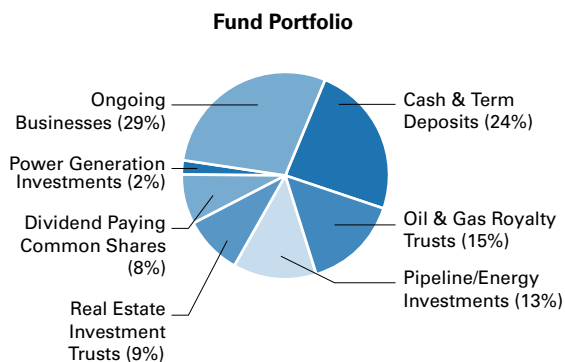
### Financial Results

Upon closing of Citadel Income & Growth Fund's initial public offering on October 16, 2003 and the exercise of an over-allotment option on November 4, 2003, net proceeds after agents' fees and issue costs of \$137.5 million were available for investment. The majority of the net proceeds were primarily invested in Canadian income funds with a smaller component in dividend paying common shares. With many income trusts and the general equity market at relative highs, the portfolio was selectively chosen and a cash reserve held back with a view to preserving capital over the longer term. By year end, Citadel Income &

Growth had deployed 75.8% of its initial net proceeds and maintained available cash of \$36.2 million for further investment opportunities. The chart on the following page reflects the Fund's portfolio based on market values as at year end.

Despite the short period of operation from October 16 to December 31, 2003, the Fund was able to grow its net asset value from \$9.42 per unit at inception to \$10.22 per unit at year end. Strong valuation gains of its investments in ongoing business trusts and pipeline/energy trusts helped elevate the Fund's net asset value to \$149.3 million at December 31, 2003.

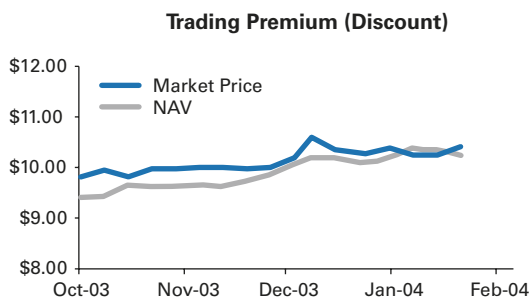
Citadel Income & Growth's total revenue for the two and one half months of operations was \$2.4 million. Administrative and investment manager fees and trailer fees of \$0.3 million and \$0.1 million respectively are calculated as a percentage of the Fund's net asset value. After total expenses of \$0.5 million, net investment income of \$1.9 million was generated for 2003. Although only partially invested throughout the reporting period, the Fund generated sufficient cash flow to meet its targeted monthly distributions of \$0.0708 per unit with distributions totaling \$0.1416 per unit for the stub period in 2003. Coupled with realized gains of \$0.4 million and unrealized gains of \$11.2 million, total results of operations of \$13.5 million or \$0.94 per unit was generated for 2003.



### Trading Premium / Discount to Net Asset Value

Since its inception, Citadel Income & Growth's unit price traded slightly above its net asset value with an average premium of 3.2%. During 2003, the Fund repurchased no units for cancellation under its mandatory repurchase program as its market price did not dip below the repurchase threshold. Under its mandatory repurchase program, Citadel Income & Growth is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.

At December 31, 2003, the Fund's net asset value per unit and market price were \$10.22 and \$10.40 respectively, representing a 1.8% premium to net asset value. The chart below reflects the Fund's net asset value per unit and market price since its inception on October 16, 2003.



### Risk Assessment

There are a number of risks associated with the investment business. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include commodity prices and interest rates which may affect the issuers' income and thus reduce distribution to unitholders. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

### Outlook for 2004

The current combination of stable inflation, high commodity prices and historically low interest rates provide a favourable environment for the income trust sector. In addition, the continued growth in the global economy and the increased demand for raw materials that we expect in 2004 should provide a favourable environment for many of the common equities the Fund may invest in. Although the capital appreciation levels that we experienced in 2003 in the income trust sector are not expected to be repeated in 2004, we do see the possibility of meaningful growth in the general equity sector. As a result, the Fund expects to maintain its current monthly distribution of \$0.0708 per unit based upon the Fund's current portfolio, analysts' estimates of distributions from the portfolio and our investment manager's view of the general equities market.

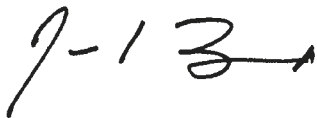
## Management's Responsibility Statement

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

CIGM maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CIGM is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the non-executive directors of the Board.

CIGM, with the approval of its Board of Directors, has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel IG Management Ltd.  
April 26, 2004



Darren K. Duncan  
Chief Financial Officer  
Citadel IG Management Ltd.

## Auditors' Report to Unitholders

To the Unitholders of Citadel Income & Growth Fund

We have audited the statements of net assets and investments of Citadel Income & Growth Fund as at December 31, 2003, and the statements of operations and changes in net assets for the period August 21, 2003, the date of the inception of the Fund, to December 31, 2003. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2003 and the results of its operations and the changes in its net assets for the period August 21, 2003, the date of the inception of the Fund, to December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 26, 2004

## Statement Of Net Assets

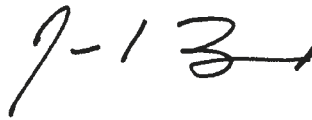
As at December 31,	2003
<b>Assets</b>	
Investments, at market (cost: 2003 - \$102,096,895)	\$ 113,319,054
Cash and term deposits	36,194,395
Revenue receivable	931,828
Prepaid expenses	49,479
	150,494,756
<b>Liabilities</b>	
Accounts payable and accrued liabilities	143,715
Distributions payable	1,034,612
	1,178,327
<b>Net Assets representing Unitholders' Equity</b>	\$ 149,316,429
<b>Units outstanding</b> (note 3)	14,613,166
<b>Net asset value per unit</b>	\$ 10.22

*see accompanying notes*

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer

## Statement Of Operations

	For the Period August 21, 2003 to December 31, 2003	
<b>Revenue</b>		
Investment income	\$	2,425,546
		2,425,546
<b>Expenses</b>		
Administrative and investment manager fees (note 4)		341,565
Trailer fee (note 5)		116,905
General and administration costs		87,792
		546,262
<b>Net investment income</b>		1,879,284
<b>Net realized gain on sale of investments</b> (note 6)		432,298
<b>Net change in unrealized gain on investments</b>		11,222,159
<b>Total results of operations</b>	<b>\$</b>	<b>13,533,741</b>
<b>Results of operations per unit</b> <sup>(1)</sup>		
Net investment income		\$ 0.13
Net realized gain on sale of investments		0.03
Net change in unrealized gain on investments		0.78
		\$ 0.94

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

## Statement Of Changes In Net Assets

	For the Period August 21, 2003 to December 31, 2003	
<b>Net Assets – beginning of period</b>	<b>\$</b>	<b>–</b>
Operations:		
Net investment income		1,879,284
Net realized gain on sale of investments		432,298
Net change in unrealized gain on investments		11,222,159
		13,533,741
Unitholder Transactions:		
Proceeds from issuance of trust units, net		137,850,903
Distributions to Unitholders: (note 7)		(2,068,215)
<b>Net Assets – end of period</b>	<b>\$</b>	<b>149,316,429</b>
<b>Distributions per unit</b>		<b>\$ 0.1416</b>

see accompanying notes

## Statement Of Investments

	As at December 31, 2003		
	Cost	Market	% of Market
<b>Ongoing Business Trusts</b>			
ACS Media Income Fund	\$ 2,843,700	\$ 3,240,000	
Advanced Fiber Technologies Income Fund	2,683,800	2,593,500	
Arctic Glacier Income Fund	7,984	8,400	
Atlas Cold Storage Income Trust	108,384	83,312	
Chemtrade Logistics Income Fund	3,648,040	3,971,000	
Cineplex Galaxy Income Fund	1,502,614	1,530,150	
Consumers' Waterheater Income Fund	113,881	126,054	
Custom Direct Income Fund	2,325,404	2,590,000	
Davis + Henderson Income Fund	255,713	293,160	
Fording Canadian Coal Trust	18,034	28,244	
Hot House Growers Income Fund	1,500,000	1,651,500	
KCP Income Fund	2,659,733	2,928,000	
Livingston International Income Fund	2,162,095	2,460,250	
Noranda Income Fund	2,656,754	3,084,600	
Prizm Canadian Income Fund	3,350,000	3,500,750	
ROW Entertainment Income Fund	2,501,000	2,665,000	
Rogers Sugar Income Fund	2,747,075	2,700,000	
SFK Pulp Fund	2,102,143	2,280,000	
Specialty Foods Group Income Fund	780,840	705,067	
TimberWest Forest Corp.	1,974,694	2,222,500	
TransForce Income Fund	3,665,407	4,058,750	
Tree Island Wire Income Fund	206,494	234,840	
UE Waterheater Income Fund	938,000	1,073,072	
	40,751,789	44,028,149	29.5%
<b>Real Estate Investment Trusts</b>			
Borealis Retail Reit	209,583	228,732	
Calloway Reit	2,486,400	3,205,668	
Canadian Apartment Reit	229,351	239,616	
Canadian Reit	189,640	208,520	
Dundee Reit	1,747,847	1,872,000	
H & R Reit	456,274	469,359	
InnVest Reit	23,397	28,591	
O & Y Reit	2,208,006	2,350,000	
Retirement Residences Reit	3,612,796	4,047,750	
RioCan Reit	744,878	798,140	
Summit Reit	200,945	219,591	
	12,109,117	13,667,967	9.0%
<b>Oil &amp; Gas Royalty Trusts</b>			
Acclaim Energy Trust	2,337,537	2,508,480	
APF Energy Trust	2,115,601	2,257,200	
ARC Energy Trust	3,950,511	4,348,300	
Bonavista Energy Trust	3,459,838	4,187,505	
Crescent Point Energy Trust	3,000,000	3,312,500	
Enerplus Resources Fund	691,639	779,091	
Vermilion Energy Trust	4,297,370	4,602,000	
	19,852,496	21,995,076	14.7%
<b>Power Generation Investments</b>			
Algonquin Power Income Fund	754,615	869,054	
Calpine Power Income Fund	147,985	154,193	
Clean Power Income Fund	255,709	275,965	
Great Lakes Hydro Income Fund	127,956	147,563	
TransAlta Power, L.P.	121,095	126,873	
TransCanada Power, L.P.	864,313	922,564	
	2,271,673	2,496,212	1.7%
<b>Pipeline/Energy Investments</b>			
CCS Income Trust	4,425,600	5,624,200	
Energy Savings Income Fund	4,136,440	4,785,500	
Heating Oil Partners Income Fund	2,901,230	3,166,600	
Superior Plus Income Fund	2,746,647	2,950,900	
Trinidad Energy Services Income Fund	2,079,000	2,860,200	
	16,288,917	19,387,400	13.0%
<b>Dividend Paying Common Shares</b>			
Abitibi Consolidated Inc.	2,090,912	2,436,950	
Barrick Gold Corporation	2,034,128	2,344,800	
BCE Inc.	4,553,920	4,624,000	
Shawcor Ltd. Class A	2,143,943	2,338,500	
	10,822,903	11,744,250	7.9%
<b>Investments</b>			
	102,096,895	113,319,054	75.8%
<b>Cash and Term Deposits</b>			
	36,194,395	36,194,395	24.2%
<b>Total</b>	<b>\$ 138,291,290</b>	<b>\$ 149,513,449</b>	<b>100.0%</b>

## Notes to the Financial Statements

December 31, 2003

### 1. Structure of the Fund

Citadel Income & Growth Fund (the "Fund" or "Citadel Income & Growth") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 21, 2003 and amended October 16, 2003. The Fund commenced operations on October 16, 2003, when it completed an issue of 14,000,000 trust units at \$10.00 per unit through an initial public offering and a further 573,860 trust units pursuant to an over-allotment provision. The term of the Fund continues until June 30, 2010.

### 2. Significant Accounting Policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

#### (a) Cash and Cash Equivalents

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

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada).

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned, and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

### 3. Unitholders' Contribution

Through the Fund's initial public offering, 14,573,860 trust units were issued at a price of \$10.00 per unit.

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

#### Issued and outstanding

	2003	
	Number	Amount
Trust units – beginning of period	–	\$ –
Issued for cash:		
Initial public offering	14,000,000	140,000,000
Over-allotment provision	573,860	5,738,600
Agents' fees and issue costs	–	(8,280,666)
Issued for services (note 4)	38,172	381,720
Issued under DRIP	1,134	11,249
Trust units – end of period	14,613,166	\$ 137,850,903

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2003, Citadel Income & Growth repurchased no trust units under this program.

Unitholders of Citadel Income & Growth can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Citadel Income & Growth at net asset value. In 2003, 1,134 units were issued under the DRIP.

#### 4. Administrative and Investment Manager Fees / Director's Fees

Citadel IG Management Ltd. ("CIGM") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administration and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2003, the Fund issued 31,922 trust units and recorded an expense of \$341,565 in respect of the administrative and investment management fees during the period. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. The administrator is indirectly controlled by a management appointed director. As at December 31, 2003, included in accounts payable were amounts owed to CIGM of \$26,810.

Directors of CIGM received a total of 6,250 units in 2003 as payment for their annual retainers.

#### 5. Trailer Fee

Citadel Income & Growth pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2003, the Fund recorded an expense of \$116,905 relating to the trailer fee.

#### 6. Investments

The net realized gain on the sale of investments was determined as follows:

	2003
Net proceeds from the sale of securities	\$ 5,643,046
Less cost of securities sold:	
Investments at cost – beginning of period	–
Investments purchased during period	107,307,643
Investments at cost – end of period	(102,096,895)
Cost of investments disposed of during period	5,210,748
Net realized gain on sale of investments	\$ 432,298

#### 7. Cash Distributions

The Fund pays out monthly cash distributions targeted at \$0.0708 per unit based upon cash distributions received by the Fund less estimated expenses.

	2003
Net investment income for the period	\$ 1,879,284
Add fees paid by issuance of units	332,241
Surplus cash not distributed in period	(143,310)
Cash distributions	\$ 2,068,215
Cash distributions per unit	\$ 0.1416

#### 8. Income Taxes

As all taxable income was allocated to the unitholders in 2003, no provision for income taxes has been made in these financial statements.

#### 9. Financial Instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, revenue receivable, accounts payable and accrued liabilities, and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

# Income & Equity Index Participation Fund

Income & Equity Index Participation Fund is a closed-end investment trust which became listed on the Toronto Stock Exchange under the symbol "IEP.un" on February 18, 2004. The Fund has a life of approximately 5 years with a termination date of June 30, 2009. The Fund's investment objectives are to provide its unitholders with monthly income from an equal weighted diversified portfolio of Canadian income funds and to provide an opportunity to participate in gains in the broader Canadian equity market as represented by the S&P/TSX 60 Index over the life of the Fund through a 5 year capped call option on the Index.

The Fund's initial public offering and the exercise of the over-allotment provision raised gross proceeds of \$151.9 million. As at April 15, 2004, the Fund was fully invested and its net asset value was \$8.90 per unit.

Income & Equity Index Participation Fund is administered by Equity Lift Management Ltd. and the rebalancing advisor is Shaunessy & Company Ltd.

The Fund's distributions have been initially set at \$0.07 per unit per month representing an 8.4% yield based upon the initial issue price of \$10.00 per unit. The first distribution for the Fund was paid on April 15, 2004 for unitholders of record on March 31, 2004.

## Corporate Information

### Administrators

**Citadel Diversified Management Ltd.**

**Citadel S1 Management Ltd.**

**Citadel TEF Management Ltd.**

**Citadel CPRT Management Ltd.**

**MYDAS Management Inc.**

**Citadel Multi-Sector Management Inc.**

**Citadel Series Management Ltd.**

**Citadel IG Management Ltd.**

**Equity Lift Management Ltd**

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Website: [www.citadelfunds.com](http://www.citadelfunds.com)

Email: [info@citadelfunds.com](mailto:info@citadelfunds.com)

### Investment Manager

**(all funds except IEPun)**

Bloom Investment Counsel, Inc.

Suite 1710, 150 York Street

Toronto, Ontario M5H 3S5

### Rebalancing Advisor

**(IEPun)**

Shaunessy & Company Ltd.

Suite 308, 908-17th Avenue S.W.

Calgary, Alberta T2T 0A8

### Trustee

**(all funds except SDL.un)**

Computershare Trust Company of Canada

Sixth Floor

530 - 8th Avenue S.W.

Calgary, Alberta T2P 3S8

### Trustee

**(SDL.un)**

BNY Trust Company of Canada

Suite 1101, 4 King Street West

Toronto, Ontario M5H 1B6

### Custodian

CIBC Mellon Global Securities Services Company

320 Bay Street, 6th Floor

Toronto, Ontario M5H 4A6

### Legal Counsel

Stikeman Elliott LLP

4300 Bankers Hall West

888 - 3rd Street S.W.

Calgary, Alberta T2P 5C5

### Auditors

PricewaterhouseCoopers LLP

3100, 111 - 5th Avenue S.W.

Calgary, Alberta T2P 5L3

### Stock Exchange Listings

The Toronto Stock Exchange

Citadel Diversified Investment Trust units: **CTD.un**

Citadel S-1 Income Trust Fund units: **SDL.un**

Citadel HYTES Fund units: **CHF.un**

Citadel SMaRT Fund units: **CRT.un**

MYDAS Fund units: **MYFun**

Citadel Multi-Sector Income Fund units: **CMS.un**

Series S-1 Income Fund units: **SRC.un**

Citadel Income & Growth Fund units: **CIF.un**

Income & Equity Index Participation Fund units: **IEPun**



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- Citadel HYTES Fund
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- Income & Equity Index Participation Fund

- all Funds
- Citadel S-1 Income Trust Fund
- Citadel SMaRT Fund
- Citadel Multi-Sector Income Fund
- Citadel Income & Growth Fund