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

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

Citadel Diversified Investment Trust

ANNUAL REPORT 2005

Citadel Diversified Investment Trust

Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified") is a closed-end investment trust which became listed on the Toronto Stock Exchange on September 16, 1997. 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 provisions of the Fund's Declaration of Trust.

During 2005, Citadel Diversified paid total distributions of $1.04 per unit (2004 - $1.04 per unit) which included a special distribution of $0.08 per unit for unitholders of record on December 31, 2005 in addition to the regular monthly distributions of $0.08 per unit. Commencing in January 2006, the Fund increased its monthly distribution to $0.085 per unit due to improved performance from the Fund's portfolio. For tax purposes, 2005 distributions were allocated as 56.8% other taxable income, 5.4% dividend income, 36.0% capital gains and 1.8% return of capital.

INVESTMENT HIGHLIGHTS:

	2005	2004	2003
Net Asset Value per Unit [1]	$ 12.13	$ 11.66	$ 10.77
Market Price per Unit [1]	$ 11.52	$ 11.42	$ 10.45
Trading Premium (Discount)	(5.0%)	(2.1%)	(3.0%)
Cash Distributions per Unit	$ 1.04	$ 1.04	$ 0.96
Trailing Yield [2]	9.0%	9.1%	9.2%
Market Capitalization ($ millions)	$ 320.7	$ 328.0	$ 244.2

[1] Net asset value and market price per unit are based on year end values.

[2] Trailing yield is based on the 12 months cash distributions declared in each year expressed as a percentage of year end market price.

Stock Symbol	CTD.un (TSX)
2005 High/Low	$12.15 - $9.05
2005 Cash Distributions	$1.04 per unit
2005 Taxable % [3]	78.4%
2005 Total Return [4]	10.7%
2005 Management Expense Ratio	1.8%

[3] Taxable percentage is based on all other taxable income, two-thirds of dividend income and one-half of capital gains expressed as a percentage of total distributions.

[4] Total return is based upon the Fund's change in market price plus the reinvestment of cash distributions in additional units of the Fund.

Management Report of Fund Performance

(April 6, 2006)

This annual report includes both the annual management report of fund performance, containing financial highlights, and the complete annual financial statements of Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

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.

RISK

There are a number of risks associated with an investment in Citadel Diversified. 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 the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks. During 2005, the Fund reduced its weighting in the interest rate sensitive power generation investments as interest rates climbed throughout the year and reduced its holdings of a number of issuers that had become overvalued in the opinion of the Fund's investment manager.

RESULTS OF OPERATIONS

Citadel Diversified grew its net asset value primarily on the strength of its oil and gas royalty trust positions despite periods of market weakness during the second and fourth quarters of 2005. The Fund's net asset value closed 2005 at $337.6 million up marginally from $335.0 million at the end of 2004. On a per unit basis, net asset value climbed to $12.13 per unit at December 31, 2005 from $11.66 per unit at the end of 2004 as portfolio valuations increased and unit repurchases at discounts to net asset value helped boost the Fund's net asset value per unit.

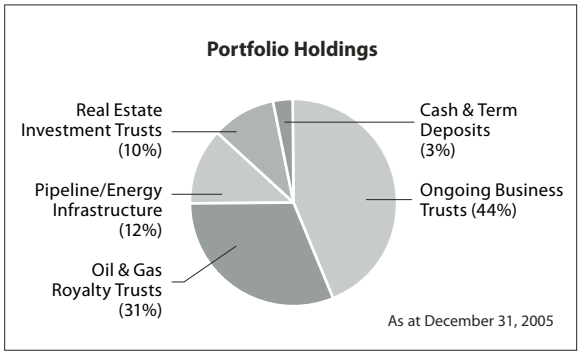
The Fund's market price also closed slightly higher in 2005 at $11.52 per unit compared to the 2004 closing price of $11.42 per unit. Citadel Diversified's unit price appreciation plus monthly cash distributions produced a 10.7% total return for 2005, while the Fund generated a 14.1% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index increased by 31.0% in 2005.

Total revenue increased from $24.5 million in 2004 to $29.1 million in 2005 as a result of an increased asset base from the Fund's $54.7 million September 2004 rights offering and increased distribution income from the oil and gas royalty trusts. Total administrative and investment manager fees, payable in units of the Fund, increased from $4.2 million in 2004 to $5.4 million in 2005 primarily due to the increase in net assets from the September 2004 rights offering. Total general and administration costs, including other expenses remained consistent for 2005 and 2004. Net investment income improved to $23.2 million in 2005 compared to $19.7 million in 2004 due to the higher revenue in 2005. On a per unit basis, net investment income was $0.82 per unit in 2005 compared to $0.80 per unit in the previous year.

During 2005, Citadel Diversified paid total distributions of $29.2 million or $1.04 per unit compared to $26.2 million or $1.04 per unit in 2004. Both 2005 and 2004 distributions reflect regular monthly distributions $0.08 per unit plus a special distribution at year end of $0.08 per unit.

The Fund realized significant capital gains during 2005 however these gains were substantially offset by large losses on dispositions of Heating Oil, SFK Pulp and Clean Power. Net realized gains of $1.0 million (2004 - $7.4 million) plus the net change in unrealized gains of $17.4 million (2004 - $31.4 million) produced total results of operations of $41.6 million or $1.48 per unit in 2005 compared to $58.5 million or $2.37 per unit in 2004.

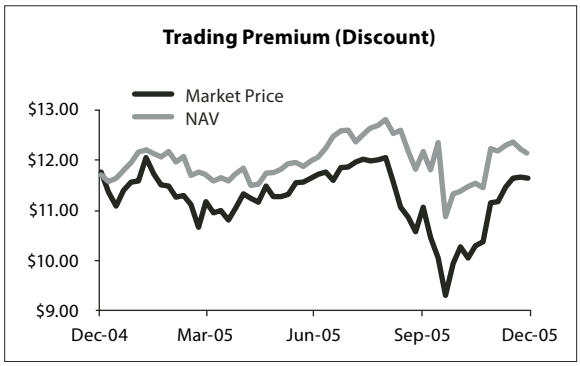
Throughout 2005, the Fund continued to invest the remaining proceeds from its September 2004 rights offering by increasing its exposure in the ongoing business trusts, oil and gas royalty trusts and real estate investment trusts ("Reits"), while reducing its exposure to the more interest rate sensitive pipeline and power generation investments. As a result of the Fund's net acquisitions, cash declined from $53.5 million at the end of 2004 to $9.2 million at the end of 2005.



The Fund's portfolio mix was not optimal in 2005. As compared to the sector weightings of the S&P/TSX Income Trust Index, the Fund was underweight in both the strong performing energy and Reit sectors. The Fund's investment manager elected to moderate the Fund's exposure to volatile commodity prices by limiting the Fund's weighting in energy compared to the energy weighting for the Index. The investment manager also chose to reduce the Fund's weighting in Reits, pipeline and power generation investments in order to mitigate the negative effects of an increasing interest rate environment. As a result of a combination of the Fund's cash position, its underweight position in energy and Reits relative to the Index and its position in a number of underperforming business trusts, the Fund's performance trailed the Index.

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 6.3% compared to an average discount of 4.4% in 2004. With the widening discount, the Fund repurchased 1,364,224 units at an average cost of $11.33 per unit under its mandatory repurchase program in 2005 compared to 831,407 units at an average cost of $10.48 per unit in 2004. 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%.



RECENT DEVELOPMENTS

On February 6, 2006, the Fund closed its fourth rights offering since its inception in 1997 which resulted in the issuance of 4,938,300 trust units for gross proceeds of $53.8 million. Each unitholder of record on January 9, 2006 received one right for each trust unit held. Four rights entitled the holder to purchase one trust unit for a price of $10.90. The rights offering resulted in a substantial increase in the Fund's cash position which the Fund's investment manager is seeking to deploy.

The current combination of a strong Canadian economy, low inflation, high commodity prices and relatively low interest rates provide a favorable environment and a positive outlook for the income trust sector. Citadel Diversified

expects to maintain its recently increased monthly distribution rate of $0.085 per unit (previously $0.08 per unit) for 2006 based upon the Fund's current portfolio and analysts' estimates of distributions. The Fund is well positioned with the cash from its recent rights offering to take advantage of attractive investment opportunities as they arise.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Citadel Diversified Management Ltd. is the administrator of Citadel Diversified, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, administrative 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. The administrator is also reimbursed for all general and adminstrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past 5 years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value per Unit

	2005	2004	2003	2002	2001
NAV, beginning of year	$ 11.66	$ 10.77	$9.61	$ 9.51	$ 8.46
Increase (decrease) from operations:					
Total revenue	1.03	0.99	1.02	0.92	1.19
Total expenses	(0.21)	(0.19)	(0.18)	(0.19)	(0.17)
Realized gains (losses)	0.04	0.30	0.27	0.53	0.20
Unrealized gains (losses)	0.62	1.27	1.01	(0.04)	0.99
Total increase (decrease) from operations	1.48	2.37	2.12	1.22	2.21
Distributions:					
From net investment income	1.00	0.96	0.96	0.89	1.12
From capital gains	0.04	0.08	–	0.11	0.02
Total annual distributions	1.04	1.04	0.96	1.00	1.14
NAV, end of year	$ 12.13	$ 11.66	$ 10.77	$ 9.61	$ 9.51

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2005	2004	2003	2002	2001
Net assets ($ 000's)	$ 337,572	$ 334,986	$ 251,767	$ 223,498	$ 123,923
Number of units outstanding	27,834,377	28,723,526	23,369,936	23,245,956	13,028,782
Management expense ratio	1.78%	1.74%	1.87%	1.91%	1.88%
Portfolio turnover ratio	15.97%	27.20%	15.16%	40.52%	21.21%
Trading expense ratio	0.05%	0.11%	0.04%	0.12%	0.07%
Closing market price	$ 11.52	$ 11.42	$ 10.45	$ 9.20	$ 10.20

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value.

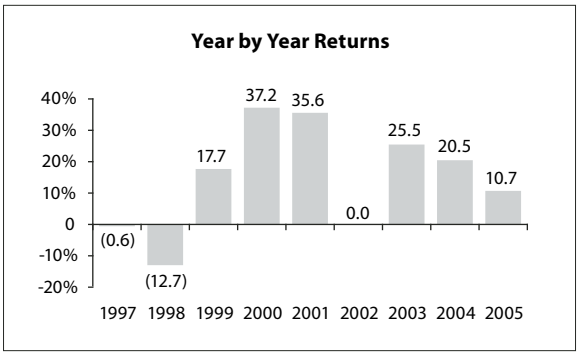
Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, administrative 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. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

PAST PERFORMANCE

Citadel Diversified's performance numbers from inception in September 1997 to December 31, 2005 are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund. The performance does not take into account rights offerings that the Fund completed in 2000, 2002 and 2004, and therefore understates the Fund's actual performance. The Fund's initial public offering was on an instalment receipt basis, thus performance numbers for 1997 and 1998 assume that the $4.00 per unit final instalment due September 1998 was actually paid at inception. The Fund's historical performance does not necessarily indicate how it will perform in the future.



ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for the periods ended December 31, 2005 for Citadel Diversified based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index. Historical information for the Index is only available back to December 31, 1997.

	1 Year	3 Year	5 Year	Since Dec. 31, 1997	Since Inception
Citadel Diversified (market price)	10.7%	18.7%	17.8%	15.7%	15.0%
Citadel Diversified (net asset value)	14.1%	19.0%	19.1%	16.9%	15.7%
S&P/TSX Capped Income Trust Index	31.0%	31.9%	25.9%	19.0%	n/a

SUMMARY OF INVESTMENT PORTFOLIO

The Fund's portfolio as at December 31, 2005 and 2004 consisted of the following subgroups:

	2005	2004
Ongoing Business Trusts	44.2%	37.5%
Oil & Gas Royalty Trusts	30.8%	20.4%
Pipeline / Energy Investments	12.5%	13.8%
Real Estate Investment Trusts	9.7%	7.7%
Power Generation Investments	–	4.8%
Cash and Term Deposits	2.8%	15.8%
Total Investments	100.0%	100.0%

The top 25 holdings as at December 31, 2005 based on market value:

ARC Energy Trust	4.7%
Paramount Energy Trust	3.4%
CCS Income Trust	3.2%
Energy Savings Income Fund	3.1%
Acclaim Energy Trust	2.9%
TransForce Income Fund	2.8%
NAL Oil & Gas Trust	2.8%
Trinidad Energy Services Income Fund	2.7%
SFK Pulp Fund	2.5%
Armtech Infrastructure Income Fund	2.3%
Vermilion Energy Trust	2.2%
Viking Energy Royalty Trust	2.2%
Crescent Point Energy Trust	2.2%

Baytex Energy Trust	2.1%
Medical Facilities Corp.	2.1%
Chemtrade Logistics Income Fund	2.1%
KCP Income Fund	2.1%
IPC U.S. Income Commercial Reit	2.0%
AltaGas Income Trust	2.0%
CML Healthcare Income Fund	2.0%
Arctic Glacier Income Fund	2.0%
Yellow Pages Income Fund	1.9%
BFI Canada Income Fund	1.9%
Morguard Reit	1.9%
Thunder Energy Trust	1.9%
% of Total Portfolio	61.2%

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 judgments. 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 independent directors of the Board.

The Audit Committee on behalf of CDML and 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 6, 2006

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 statement of net assets and investments of Citadel Diversified Investment Trust as at December 31, 2005 and 2004 and the statements of operations and changes in net assets for the years ended December 31, 2005 and 2004. 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, 2005 and 2004 and the results of its operations and the changes in its net assets for the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

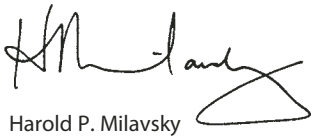
PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
March 10, 2006

Statement of Net Assets

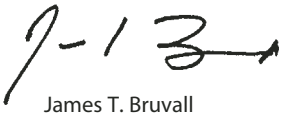
As at December 31,	2005	2004
Assets		
Investments, at market	$ 326,122,725	$ 285,533,775
Cash and term deposits	9,247,172	53,547,806
Prepaid expenses	4,140,157	3,466,269
Revenue receivable	2,520,352	2,511,738
Accounts receivable	–	42,159
	342,030,406	345,101,747
Liabilities		
Accounts payable and accrued liabilities	5,268	–
Payable for investments purchased	–	5,520,000
Distributions payable	4,453,500	4,595,764
	4,458,768	10,115,764
Net Assets representing Unitholders' Equity	$ 337,571,638	$ 334,985,983
Units outstanding (note 3)	27,834,377	28,723,526
Net asset value per unit	$ 12.13	$ 11.66

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

Years Ended December 31,	2005	2004
Revenue		
Distribution income	$ 28,107,046	$ 23,431,886
Interest income	1,036,499	1,018,398
	29,143,545	24,450,284
Expenses		
Administrative and investment manager fees (note 4)	5,422,659	4,172,100
General and administration costs	312,479	266,031
Directors' fees	87,245	91,081
Reporting costs	55,585	92,926
Custodial fees	30,847	47,857
Audit fees	24,833	22,794
Legal fees	24,365	23,783
Trustee fees	21,178	15,248
Loan interest	–	3,836
	5,979,191	4,735,656
Net investment income	23,164,354	19,714,628
Net realized gain on sale of investments (note 5)	1,041,163	7,436,098
Net change in unrealized gain on investments	17,371,644	31,396,645
Total results of operations	$ 41,577,161	$ 58,547,371
Results of operations per unit [1]		
Net investment income	$ 0.82	$ 0.80
Net realized gain on sale of investments	0.04	0.30
Net change in unrealized gain on investments	0.62	1.27
	$ 1.48	$ 2.37

[1] Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Years Ended December 31,	2005	2004
Net Assets – beginning of year	$ 334,985,983	$ 251,766,591
Operations:		
Net investment income	23,164,354	19,714,628
Net realized gain on sale of investments	1,041,163	7,436,098
Net change in unrealized gain on investments	17,371,644	31,396,645
	41,577,161	58,547,371
Unitholder Transactions:		
Issuance of trust units, net	5,705,650	59,587,385
Repurchase of trust units	(15,458,104)	(8,713,814)
	(9,752,454)	50,873,571
Distributions to Unitholders: (note 6)		
From net investment income	(28,294,771)	(23,676,283)
From capital gains	(944,281)	(2,525,267)
	(29,239,052)	(26,201,550)
Net Assets – end of year	$ 337,571,638	$ 334,985,983
Distributions per unit	$ 1.04	$ 1.04

see accompanying notes

Statement of Investments

	December 31, 2005				December 31, 2004			
	Number of Units Held	Cost	Market Value	% of Market	*Number of Units Held*	Cost	Market Value	% of Market
Ongoing Business Trusts								
Arctic Glacier Income Fund	*625,000*	$ 7,031,250	$ 6,750,000		–	$ –	$ –	
Armtech Infrastructure Income Fund	*450,000*	4,507,385	7,717,500		*450,000*	4,507,385	6,187,500	
Art in Motion Income Fund	*528,000*	5,280,000	1,531,200		*528,000*	5,280,000	3,854,400	
BFI Canada Income Fund	*230,000*	5,520,000	6,460,700		*230,000*	5,520,000	5,520,000	
The Brick Group Income Fund	*650,000*	6,559,800	6,051,500		*650,000*	6,500,000	9,074,000	
CML Healthcare Income Fund	*470,000*	5,041,690	6,768,000		*570,000*	6,114,390	7,609,500	
Chemtrade Logistics Income Fund	*650,000*	9,530,118	6,948,500		*250,000*	3,310,118	5,075,000	
Cineplex Galaxy Income Fund	*300,000*	4,238,500	4,380,000		*100,000*	1,018,500	1,470,000	
Clearwater Seafoods Income Fund	–	–	–		*41,200*	420,240	361,736	
Custom Direct Income Trust	*442,600*	4,451,928	4,359,610		*442,600*	4,451,928	5,089,900	
Davis + Henderson Income Fund	*220,000*	2,301,667	5,101,800		*220,000*	2,301,667	4,994,000	
E. D. Smith Income Fund	*165,800*	1,658,000	1,658,000		–	–	–	
GMP Capital Trust	*301,100*	5,283,673	5,395,712		–	–	–	
Gateway Casinos Income Fund	*325,000*	3,211,000	5,187,000		*325,000*	3,211,000	7,003,750	
GolfTown Income Fund	*144,000*	1,336,176	1,483,200		–	–	–	
Great Lakes Carbon Income Fund	*490,000*	5,157,550	4,949,000		*419,600*	4,277,550	4,531,680	
Halterm Income Fund	*759,800*	4,841,613	6,230,360		*767,300*	4,889,404	5,754,750	
KCP Income Fund	*750,200*	7,054,933	6,901,840		*750,200*	7,054,933	8,507,268	
Livingston International Income Fund	*265,000*	2,848,506	5,962,500		*265,000*	2,848,506	5,949,250	
Medical Facilities Corporation	*615,000*	6,688,596	7,041,750		*500,000*	5,164,846	6,050,000	
New Flyer Industries Inc.	*600,000*	6,000,000	5,640,000		–	–	–	
Oceanex Income Fund	*236,500*	2,244,148	3,311,000		*336,500*	3,193,048	5,384,000	
Priszm Canadian Income Fund	*400,000*	4,034,440	3,800,000		*400,000*	4,034,440	5,912,000	
Rogers Sugar Income Fund	*550,000*	3,304,095	2,035,000		*550,000*	3,304,095	2,475,000	
SFK Pulp Fund	*1,835,500*	6,529,022	8,259,750		*700,000*	6,577,189	5,075,000	
Spinrite Income Fund	*700,000*	6,009,217	4,368,000		–	–	–	
SunGro Horticultural Income Fund	*600,000*	4,551,000	4,050,000		*600,000*	4,551,000	4,890,000	
TransForce Income Fund	*557,194*	5,246,492	9,505,730		*730,000*	6,687,631	11,117,900	
Yellow Pages Income Fund	*400,000*	4,522,748	6,520,000		*400,000*	4,522,748	5,396,000	
		134,983,547	148,367,652	44.2%		99,740,618	127,282,634	37.5%
Oil & Gas Royalty Trusts								
ARC Energy Trust	*600,000*	5,524,221	15,894,000		*600,000*	5,524,220	10,740,000	
Acclaim Energy Trust	*519,400*	5,558,788	9,842,630		*519,400*	5,558,788	7,479,360	
Baytex Energy Trust	*400,000*	4,876,000	7,080,000		*400,000*	4,876,000	5,108,000	
Chamaelo Exploration Ltd.	*208,000*	1,578,978	1,591,200		–	–	–	
Crescent Point Energy Trust	*350,000*	5,093,100	7,238,000		*350,000*	5,093,100	5,897,500	
Enerplus Resources Fund	*100,000*	2,280,163	5,586,000		*100,000*	2,280,163	4,360,000	
Harvest Energy Trust	*50,549*	946,700	1,879,917		*50,000*	934,100	1,147,500	
NAL Oil & Gas Trust	*518,000*	5,243,051	9,365,440		*430,000*	4,037,451	5,826,500	
Paramount Energy Trust	*520,000*	6,233,450	11,528,400		*520,000*	6,233,450	8,288,800	
PetroFund Energy Trust	*309,400*	3,430,000	6,339,606		*309,400*	3,430,000	4,829,734	
Thunder Energy Trust	*534,000*	6,424,020	6,408,000		–	–	–	
Vault Energy Trust	*520,000*	5,181,022	5,928,000		*240,000*	3,123,404	5,157,600	
Vermilion Energy Trust	*250,000*	3,525,000	7,435,000		*250,000*	3,525,000	5,030,000	
Viking Energy Royalty Trust	*800,000*	5,314,943	7,360,000		*800,000*	5,314,943	5,400,000	
		61,209,436	103,476,193	30.8%		49,930,619	69,264,994	20.4%
Pipeline / Energy Investments								
AltaGas Income Trust	*243,500*	4,850,894	6,805,825		*243,500*	4,955,225	5,637,025	
CCS Income Trust	*286,800*	2,330,693	10,611,600		*143,400*	2,330,693	6,299,562	
Energy Savings Income Fund	*550,000*	1,405,275	10,444,500		*550,000*	1,405,275	10,587,500	
Heating Oil Partners Income Fund	–	–	–		*390,000*	3,931,837	2,788,500	
Inter Pipeline Fund	–	–	–		*454,050*	3,082,999	4,159,098	
Keyspan Facilities Income Fund	–	–	–		*350,000*	4,235,556	5,036,500	
Superior Plus Income Fund	*210,000*	3,317,060	4,935,000		*210,000*	3,317,060	6,304,200	
Trinidad Energy Services Income Fund	*575,000*	4,485,000	9,096,500		*575,000*	4,485,000	6,003,000	
		16,388,922	41,893,425	12.5%		27,743,645	46,815,385	13.8%

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Real Estate Investment Trusts								
H&R Reit	*175,000*	2,071,134	3,640,000		*175,000*	2,071,134	3,323,250	
Huntington Reit	*1,800,000*	4,950,000	4,950,000		–	–	–	
IPC U.S. Income Commercial Reit	*600,000*	6,271,105	6,816,000		*600,000*	6,271,105	6,360,000	
Morguard Reit	*583,705*	5,516,373	6,420,755		*583,705*	5,516,372	6,012,162	
Primaris Retail Reit	*355,000*	4,899,309	5,800,700		*300,000*	5,400,000	5,406,000	
TGS North American Reit	*600,000*	5,487,597	4,758,000		*550,000*	5,305,500	4,895,000	
		29,195,518	32,385,455	9.7%		24,564,111	25,996,412	7.7%
Power Generation Investments								
Atlantic Power Corporation	–	–	–		*470,000*	4,700,000	5,052,500	
Clean Power Income Fund	–	–	–		*309,500*	3,090,314	2,147,930	
Countryside Power Income Fund	–	–	–		*560,000*	5,422,962	5,180,000	
TransAlta Power L.P.	–	–	–		*370,500*	3,367,845	3,793,920	
	–	–	–	–		16,581,121	16,174,350	4.8%
Investments		241,777,423	326,122,725	97.2%		218,560,114	285,533,775	84.2%
Cash and Term Deposits		9,247,172	9,247,172	2.8%		53,547,806	53,547,806	15.8%
Total		$ 251,024,595	$ 335,369,897	100.0%		$ 272,107,920	$ 339,081,581	100.0%

All portfolio holdings are trust units, except the following: Medical Facilities Corporation and Atlantic Power Corporation – income participating securities; New Flyer Industries Inc. – income deposit security; Chamaelo Exploration Ltd. – common shares; TransAlta Power L.P. – LP units.

Notes to the Financial Statements

December 31, 2005 and 2004

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 upon completion of its initial public offering on September 16, 1997. The term of the Fund continues until December 31, 2012 in accordance with the provisions of the Fund's Declaration of Trust.

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 revenue and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(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). As all taxable income was allocated to the unitholders in 2005 and 2004, no provision for income taxes has been made in these financial statements.

(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.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, 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.

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	2005		2004	
	Number	Amount	Number	Amount
Trust units – beginning of year	28,723,526	$ 264,149,676	23,369,936	$ 213,276,106
Issued for cash:				
Exercise of rights, net	–	–	5,718,944	54,693,828
Issued for services (note 4)	475,075	5,705,651	466,053	4,893,556
Repurchase of trust units	(1,364,224)	(15,458,104)	(831,407)	(8,713,814)
Trust units – end of year	27,834,377	$ 254,397,223	28,723,526	$ 264,149,676

The weighted average number of units outstanding in 2005 was 28,225,018 (2004 – 24,711,964 units).

On September 16, 2004, Citadel Diversified completed a rights offering. Under the terms of the rights offering a total of 5,718,944 trust units were issued at a price of $9.70 per unit, resulting in net proceeds of $54.7 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 such quarter. During 2005, 1,364,224 trust units were repurchased for cancellation under the program at an average cost of $11.33 per unit. (2004 – 831,407 units at an average cost of $10.48 per unit)

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 administrative 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 2005, 469,871 units (2004 – 460,099 units) were issued to CDML in respect of twelve months of services ending September 16, 2006. During 2005, the Fund recorded an expense of $5,422,659 (2004 – $4,172,100) in respect of administrative and investment management fees units earned during the year. The amounts issued to CDML in 2005 and 2004 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. As at December 31, 2005, included in accounts payable were amounts owed to CDML of $5,268 (2004 – due from CDML $42,159 in accounts receivable).

Directors of CDML received a total of 5,204 units in 2005 (2004 – 5,954 units) as payment for their annual retainers.

5. INVESTMENTS

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

	2005	2004
Net proceeds from the sale of securities	$ 53,448,381	$ 74,246,870
Less cost of securities sold:		
Investments at cost – beginning of year	218,560,114	169,464,331
Investments purchased during year	75,624,527	115,906,555
Investments at cost – end of year	(241,777,423)	(218,560,114)
Cost of investments disposed of during year	52,407,218	66,810,772
Net realized gain on sale of investments	$ 1,041,163	$ 7,436,098

6. CASH DISTRIBUTIONS

The Fund distributes monthly cash distributions equal to the cash distributions received by the Fund less estimated expenses. In 2005 and 2004, the Fund also distributed a portion of its realized capital gains by way of a special distribution of $0.08 per unit to unitholders of record on December 31, 2005 and 2004.

	2005	2004
Net investment income for the year	$ 23,164,354	$ 19,714,628
Add fees paid by issuance of units	5,130,417	3,961,655
Capital distributed	944,280	2,525,267
Cash distributions	$ 29,239,052	$ 26,201,550
Cash distributions per unit	$ 1.04	$ 1.04

7. 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, 2005 (2004 – 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 June 30, 2006 and for a further 364 days at the option of the bank.

8. BROKER COMMISSIONS

The Fund paid commissions to brokers of $176,148 in 2005 (2004 – $296,693) in relation to the purchase and sale of investments.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

10. SUBSEQUENT EVENT

On December 29, 2005, the Fund announced a rights offering whereby each holder of a unit on the record date of January 9, 2006 would receive one right. The rights offering closed on February 6, 2006, resulting in the issuance of an additional 4,938,300 units at a price of $10.90 per unit for gross proceeds of $53.8 million.

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.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
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Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Directors and Officers
Harold P. Milavsky - Chairman of the Board
Paul L. Waitzer - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Investment Manager
(CTD.un, SDL.un, CHF.un, CRT.un, MYF.un,
CMS.un, SRC.un, CIF.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager
(EPF.un and SPU.un)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Rebalancing Advisor
(IEP.un and EQW.un)
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Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

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Computershare Trust Company of Canada
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Calgary, Alberta T2P 3S8

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Auditors
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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: **MYF.un**
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: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**

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