



Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2008 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

Citadel Diversified Investment Trust

Annual Report 2008

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 2008, Citadel Diversified paid monthly cash distributions of \$0.085 per unit for a total of \$1.02 per unit compared to \$1.27 per unit in 2007. No special or unit distributions were paid in 2008. In addition to the regular monthly distributions of \$0.085 per unit for 2007, Citadel Diversified declared a special cash distribution of \$0.25 per unit and a special unit distribution of \$0.684 per unit to unitholders of record on December 31, 2007. The unit distribution, which was immediately consolidated into the Fund’s previously issued and outstanding units, resulted in an increase to the adjusted cost base of each unit.

INVESTMENT HIGHLIGHTS:

	2008	2007	2006
Net Assets per Unit ⁽¹⁾	\$ 7.50	\$ 11.08	\$ 11.25
Market Price per Unit ⁽¹⁾	\$ 5.27	\$ 8.96	\$ 9.67
Trading Premium (Discount)	(29.7%)	(19.1%)	(14.0%)
Cash Distributions per Unit	\$ 1.02	\$ 1.27	\$ 1.02
Trailing Yield ⁽²⁾	19.4%	14.2%	10.5%
Market Capitalization (\$ millions)	\$ 148.0	\$ 265.2	\$ 302.2
Net Assets (\$ millions)	\$ 210.5	\$ 328.0	\$ 351.4

⁽¹⁾ Net assets and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

MANAGEMENT REPORT OF FUND PERFORMANCE

(March 24, 2009)

This annual report for the years ended December 31, 2008 and 2007 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Diversified Investment Trust.

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 (“Reits”), income funds, qualified limited partnerships and other income vehicles.

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.

INCOME TRUST TAX

Bill C-52, an Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007, was given Royal Assent on June 22, 2007 thereby passing into law the Government's imposition of a tax on income trusts starting in 2011. Since the announcement of the income trust tax in October 2006, takeover activity and reversion of trusts back to corporations has been significant and is expected to persist in the trust sector leading up to 2011. The tax on income trusts does not directly impact Citadel Diversified, however the tax will impact cash available for distribution of many of the holdings within its portfolio.

As the date upon which the Federal Government's imposition of a tax on the distributions of income trusts approaches, it is expected that more income trusts will convert to dividend paying corporations. Accordingly, it is expected that the Fund's portfolio will over time contain less income funds and more other income vehicles, such as preferred and common dividend paying securities. Dividends paid by corporations are not subject to the income trust tax imposed by Bill C-52.

RESULTS OF OPERATIONS

With the deterioration of global financial conditions and the decline in commodity prices due to the credit crisis and economic downturn, world equity markets collapsed in the second half of 2008. The S&P/TSX Capped Income Trust index was also dragged down with an annual total return of negative 26.1% in 2008 compared to a positive total return of 24.5% in the first half of the year. During the second half of 2008, oil and other commodity prices fell from record highs as a result of worldwide demand destruction and the economic slowdown. In addition, the severity of tightening credit continued to weigh heavily on equity valuations.

As a result of these negative factors, Citadel Diversified's net assets decreased from \$328.0 million at December 31, 2007 to \$210.5 million at December 31, 2008. On a per unit basis, the Fund's net assets also declined from \$11.08 per unit at December 31, 2007 to \$7.50 at December 31, 2008.

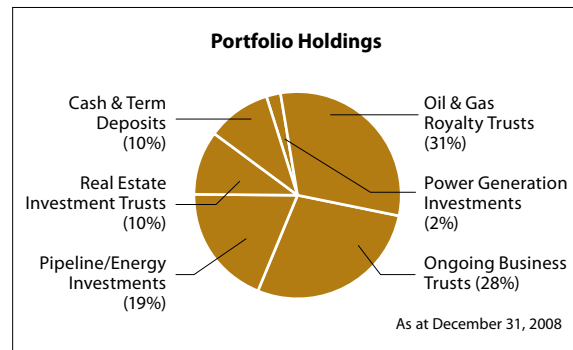
The Fund's market price also declined significantly year over year, closing at \$5.27 per unit on December 31, 2008 down from \$8.96 per unit at the end of 2007. Citadel Diversified's market price decline, partially offset by monthly cash distributions, produced a negative 33.4% total return for 2008, while the Fund generated a negative 23.3% total return on a net assets basis.

Total revenue declined to \$29.8 million for 2008 compared to \$34.0 million in 2007 as the underlying portfolio reduced distributions in response to the weakening economic conditions. Administrative and investment manager fees, payable in cash, declined from \$5.9 million for 2007 to \$4.7 million for 2008 due to the decline in net asset value and annual fee adjustment from 2007. Total general and administration costs, including portfolio transaction costs and other expenses, were \$0.92 million in 2008 compared to \$0.98 million in 2007. After total expenses of \$5.6 million, the Fund generated net investment income of \$24.2 million or \$0.84 per unit for 2008 compared to \$27.1 million or \$0.89 per unit for 2007 primarily due to the decline in distribution revenue.

During 2008, the Fund realized net gains of \$0.7 million on dispositions of investments in the year. In 2007, the Fund experienced net realized gains of \$31.2 million. As a result of the significant pullback in its portfolio valua-

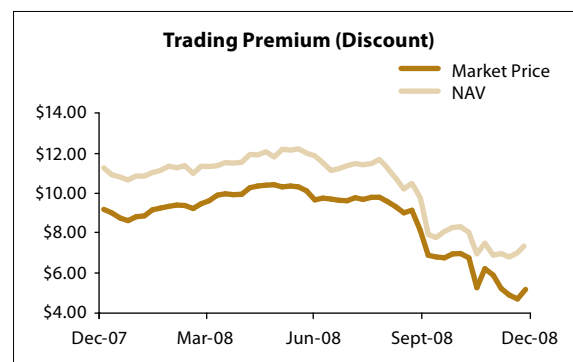
tions, the Fund experienced \$99.8 million of unrealized losses in 2008 compared to unrealized losses of \$25.3 million in 2007. The significant unrealized losses contributed to the Fund's overall loss from operations of \$74.8 million or negative \$2.59 per unit in 2008 compared to positive \$33.0 million or \$1.08 per unit in 2007.

Citadel Diversified paid monthly distributions of \$0.085 per unit for a total of \$29.3 million or \$1.02 per unit in 2008. No special or unit distributions were paid in 2008. For 2007, the Fund paid monthly distributions of \$0.085 per unit plus a special cash distribution of \$0.25 per unit at year end for a total of \$38.4 million or \$1.27 per unit. In addition, the Fund paid a special unit distribution of \$0.684 per unit to unitholders of record on December 31, 2007, which was payable in units of the Fund. The unit distribution was immediately consolidated into the Fund's previously issued and outstanding units, such that there was no impact to the net assets per unit.



TRADING PREMIUM (DISCOUNT) TO NET ASSET VALUE

For 2008, the Fund's market price traded at an average discount to its net asset value per unit of 17.0% compared to an average discount of 14.1% for 2007. With this discount, the Fund repurchased 1,450,200 units at an average cost of \$8.79 per unit for 2008 under its mandatory repurchase program compared to 1,534,300 units at an average cost of \$10.10 per unit for 2007. 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%, subject to 1.25% per quarter of the units outstanding.



On November 20, 2007, the Fund entered into a normal course issuer bid whereby a total of 2,902,416 units may be repurchased for cancellation over a period of twelve months. In December 2007, the Fund had repurchased 200,000 units of which 122,100 units were cancelled prior to year end with the balance cancelled in January 2008. The issuer bid expired on November 19, 2008.

RECENT DEVELOPMENTS

New Accounting Standards

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3862 "Financial Instruments: Disclosure" ("Section 3862") and Section 3863 "Financial Instruments: Presentation" ("Section 3863") of the CICA Handbook, which establishes Generally Accepted Accounting Principles ("GAAP") for financial reporting purposes. These two sections replaced CICA Handbook Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires financial statement disclosures on the nature and extent of risks arising from financial instruments and how these risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3863 describes the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections apply to fiscal years beginning on or after October 1, 2007. Section 1535 "Capital Disclosures" was issued by the CICA in 2007. This section establishes disclosure requirements about an entity's capital and provides users of the financial statements with the ability to evaluate the entity's objectives, policies and processes for managing capital. As a result, the Fund adopted these sections prospectively, beginning January 1, 2008.

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. The forward looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward looking statements.

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, total annual administrative and investment management fees are based upon 1.5% of the aggregate average weekly net asset value of the Fund, payable in cash in advance and subject to annual adjustment. The administrator is also reimbursed for all general and administrative 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. This information is derived from the Fund's audited annual financial statements for each year in the 5 year period ended December 31, 2008.

Net Assets per Unit ("NAPU")

	2008	2007	2006	2005	2004
NAPU, beginning of period	\$ 11.08	\$ 11.25	\$ 12.13	\$ 11.66	\$ 10.77
Increase (decrease) from operations:					
Total revenue	1.03	1.12	1.05	1.03	0.99
Total expenses	(0.19)	(0.23)	(0.21)	(0.21)	(0.19)
Realized gains (losses)	0.03	1.02	(0.04)	0.04	0.30
Unrealized gains (losses)	(3.46)	(0.83)	(0.51)	0.62	1.27
Total increase (decrease) from operations	(2.59)	1.08	0.29	1.48	2.37
Distributions:					
From net investment income	0.84	0.89	0.98	1.00	0.96
From capital gains	0.03	0.38	–	0.04	0.08
Return of capital	0.15	–	0.04	–	–
Total cash distributions	1.02	1.27	1.02	1.04	1.04
NAPU, end of period	\$ 7.50	\$ 11.08	\$ 11.25	\$ 12.13	\$ 11.66

NAPU and cash distributions per unit are based on the actual number of units outstanding at the time. The December 31, 2008 and 2007 NAPU are based on bid prices and all prior NAPU are based on closing prices. 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 NAPU since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

At the end of 2007, the Fund declared a special unit distribution which is not reflected above. This unit distribution was immediately consolidated into the Fund's previously issued and outstanding units and as a result there was no impact to the net assets per unit.

Ratios and Supplemental Data

	2008	2007	2006	2005	2004
Net assets (\$ 000's)	\$ 210,523	\$ 328,028	\$ 351,384	\$ 337,572	\$ 334,986
Number of units outstanding	28,075,895	29,598,297	31,247,143	27,834,377	28,723,526
Management expense ratio	1.80%	1.83%	1.75%	1.78%	1.74%
Portfolio turnover ratio	20.50%	27.66%	24.68%	15.97%	27.20%
Trading expense ratio	0.08%	0.10%	0.11%	0.05%	0.11%
Closing market price	\$ 5.27	\$ 8.96	\$ 9.67	\$ 11.52	\$ 11.42

Management expense ratio is based on total expenses (excluding portfolio transaction costs) 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. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

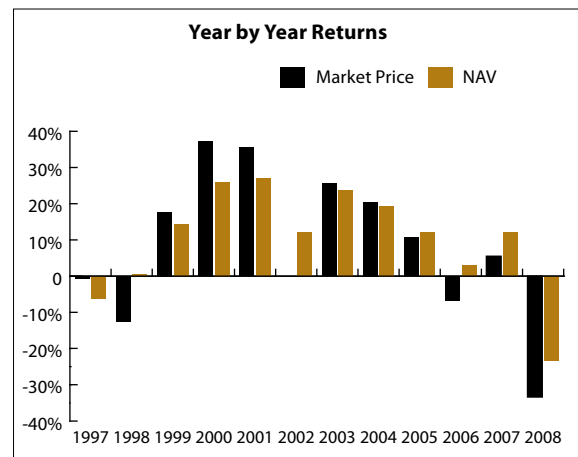
Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.5% of the aggregate average weekly net asset value of the Fund, payable in cash 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 a portion 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 represent the annual compound total returns over the period from inception in September 1997 to December 31, 2008 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund. The Fund's initial public offering was on an installment receipt basis, and as a result performance numbers for 1997 and 1998 assume that the \$4.00 per unit final installment due September 1998 was actually paid at inception.



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

ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Citadel Diversified based on market price and net assets per unit with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2008. Historical information for the index is only available back to December 31, 1997. The S&P/TSX Capped Income Trust Index is a total return based on a market cap weighted index of all Global Industry Classification Standards of the income trust sector. In 2008, Citadel Diversified's net assets return outperformed the index due to its relative overweight position in the better performing ongoing business trust sector and cash.

	1 Year	3 Year	5 Year	10 Year	Since Inception
Citadel Diversified (market price)	(33.36%)	(13.12%)	(2.66%)	9.09%	6.71%
Citadel Diversified (net assets)	(23.30%)	(3.96%)	3.82%	11.73%	10.05%
S&P/TSX Capped Income Trust Index	(26.08%)	(8.50%)	4.91%	13.51%	n/a

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2008

Net Assets: \$210,522,759

Portfolio by Sector	% of Net Assets
Oil & Gas Royalty Trusts	30.1%
Ongoing Business Trusts	27.7%
Pipeline / Energy Investments	19.1%
Real Estate Investment Trusts	9.8%
Power Generation Investments	1.9%
Cash and Term Deposits	9.9%
Other assets, net of liabilities	1.5%
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

ARC Energy Trust	5.7%	Cineplex Galaxy Income Fund	2.6%
Crescent Point Energy Trust	5.7%	Colabor Income Fund	2.5%
Enerplus Resources Fund	4.2%	Progress Energy Trust	2.5%
Vermilion Energy Trust	4.2%	Bonavista Energy Trust	2.4%
AltaGas Income Trust	4.1%	Fort Chicago Energy Partners L.P.	2.2%
Armtech Infrastructure Income Fund	3.4%	InterPipeline Fund	2.2%
Keyera Facilities Income Fund	3.4%	New Flyer Industries Inc.	2.1%
Yellow Pages Income Fund	3.3%	Energy Savings Income Fund	2.1%
Morguard Reit	3.2%	AG Growth Income Fund	2.0%
Superior Plus Corp.	3.1%	Extendicare Reit	2.0%
Medical Facilities Corp.	2.8%	Riocan Reit	1.9%
Baytex Energy Trust	2.8%	Chemtrade Logistics Income Fund	1.9%
NAL Oil & Gas Trust	2.6%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

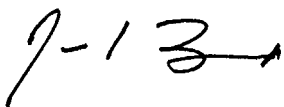
MANAGEMENT'S RESPONSIBILITY STATEMENT

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.

March 24, 2009



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, 2008 and 2007 and the statements of operations and comprehensive income and changes in net assets for the years ended December 31, 2008 and 2007. 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, 2008 and 2007 and the results of its operations and the changes in its net assets for the years ended December 31, 2008 and 2007 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Alberta

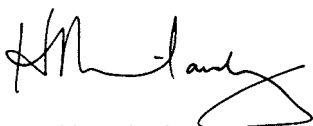
March 24, 2009

STATEMENT OF NET ASSETS

As at December 31	2008	2007
Assets		
Investments, at market	\$ 186,443,141	\$ 292,944,674
Cash and term deposits	20,946,540	38,394,240
Prepaid expenses	2,972,226	3,598,677
Revenue receivable	2,265,181	3,025,938
Accounts receivable	302,503	–
	212,929,591	337,963,529
Liabilities		
Accounts payable	20,381	19,895
Distributions payable	2,386,451	9,915,430
	2,406,832	9,935,325
Net Assets representing Unitholders' Equity	\$ 210,522,759	\$ 328,028,204
Units outstanding (note 3)	28,075,895	29,598,297
Net Assets per unit	\$ 7.50	\$ 11.08

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



Kent J. MacIntyre
Director

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For the years ended December 31	2008	2007
Revenue		
Distribution income	\$ 28,694,183	\$ 33,016,375
Interest income	802,898	581,268
Securities lending income	349,717	410,744
	29,846,798	34,008,387
Expenses		
Administrative and investment manager fees (note 4)	4,698,789	5,928,009
General and administration costs	417,505	344,541
Portfolio transaction costs (note 8)	246,069	369,066
Directors' fees	68,819	74,849
Reporting costs	59,803	65,589
Custodial fees	28,742	32,321
Legal fees	28,508	35,779
Trustee fees	25,419	16,457
Audit fees	24,220	23,641
Independent Review Committee fees	18,755	14,539
	5,616,629	6,904,791
Net investment income	24,230,169	27,103,596
Net realized gain (loss) on sale of investments (note 5)	735,194	31,212,910
Net change in unrealized gain (loss) on investments	(99,771,139)	(25,349,302)
Total results of operations and comprehensive income	\$ (74,805,776)	\$ 32,967,204
Results of operations per unit⁽¹⁾		
Net investment income	\$ 0.84	\$ 0.89
Net realized gain (loss) on sale of investments	0.03	1.02
Net change in unrealized gain (loss) on investments	(3.46)	(0.83)
	\$ (2.59)	\$ 1.08

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

see accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

For the years ended December 31	2008	2007
Net Assets – beginning of year	\$ 328,028,204	\$ 351,384,058
Fair Value Adjustment: (note 2)		
Adjust January 1, 2007 to bid prices	–	(1,398,198)
Operations:		
Net investment income	24,230,169	27,103,596
Net realized gain (loss) on sale of investments	735,194	31,212,910
Net change in unrealized gain (loss) on investments	(99,771,139)	(25,349,302)
	(74,805,779)	32,967,204
Unitholder Transactions: (note 3)		
Issuance of trust units, net	51,852	20,320,247
Repurchase of trust units	(13,448,769)	(16,601,252)
	(13,396,917)	3,718,995
Distributions to Unitholders: (note 6)		
From net investment income	(24,230,169)	(27,167,977)
From capital gains	(735,194)	(31,212,910)
Return of capital	(4,337,389)	(262,968)
	(29,302,752)	(58,643,855)
Net Assets – end of year	\$ 210,522,759	\$ 328,028,204
Distributions per unit	\$ 1.02	\$ 1.954

see accompanying notes

STATEMENT OF INVESTMENTS

	December 31, 2008				December 31, 2007			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
AG Growth Income Fund	216,600	\$ 6,064,879	\$ 4,199,874		-	\$ -	\$ -	
Arctic Glacier Income Fund	-	-	-		770,000	8,543,600	8,816,500	
Armtech Infrastructure Income Fund	420,000	5,319,206	7,135,800		450,000	4,507,385	10,813,500	
BFI Canada Ltd.	385,000	9,038,745	3,988,600		200,000	5,020,000	5,320,000	
CML Healthcare Income Fund	-	-	-		384,400	4,123,459	6,580,928	
Chemtrade Logistics Income Fund	463,800	6,299,401	4,025,784		792,100	11,031,959	6,685,324	
Cineplex Galaxy Income Fund	400,000	5,687,635	5,468,000		280,000	3,821,635	4,656,400	
Clearwater Seafoods Income Fund	-	-	-		1,500,000	6,090,500	6,750,000	
Colabor Income Fund	645,000	6,624,500	5,340,600		365,000	3,741,250	3,690,150	
Medical Facilities Corporation	775,500	8,516,194	5,847,270		800,000	8,785,243	9,200,000	
Morneau Sobeca Income Fund	219,500	2,295,250	1,925,015		-	-	-	
New Flyer Industries Inc.	544,400	5,465,329	4,507,632		643,700	6,462,219	8,046,250	
Noranda Income Fund	750,000	7,443,229	3,052,500		750,000	7,443,229	7,230,000	
Northstar Healthcare Inc.	693,700	8,273,376	2,004,793		374,000	4,658,163	5,909,200	
TransForce Inc.	950,000	6,792,000	3,923,500		700,000	6,885,585	6,440,000	
Yellow Pages Income Fund	1,047,200	12,904,397	6,942,936		825,000	10,876,708	11,459,250	
		90,724,141	58,362,304	28.2%		91,990,935	101,597,502	30.7%
Oil & Gas Royalty Trusts								
ARC Energy Trust	600,000	6,482,229	12,030,000		700,000	7,562,601	14,259,000	
Baytex Energy Trust	400,000	4,876,000	5,792,000		400,000	4,876,000	7,560,000	
Bonavista Energy Trust	300,000	8,780,600	5,061,000		300,000	8,780,600	8,514,000	
Canetic Resources Trust	-	-	-		450,000	5,769,654	5,989,500	
Crescent Point Energy Trust	500,000	8,351,500	12,000,000		590,000	9,854,770	14,567,100	
Enerplus Resources Fund	370,000	13,207,125	8,828,200		417,600	14,906,203	16,603,776	
Harvest Energy Trust	-	-	-		220,000	5,498,171	4,538,600	
NAL Oil & Gas Trust	701,100	7,704,676	5,503,635		701,100	7,704,676	8,097,705	
PennWest Energy Trust	-	-	-		300,000	8,347,024	7,743,000	
Progress Energy Trust	600,300	6,447,324	5,318,658		356,700	3,760,169	3,859,494	
Vermilion Energy Trust	350,000	6,723,100	8,760,500		350,000	6,723,100	11,921,000	
		62,572,554	63,293,993	30.5%		83,782,969	103,653,175	31.3%
Pipeline / Energy Investments								
AltaGas Income Trust	500,000	11,243,282	8,530,000		355,300	7,799,421	9,344,390	
Energy Savings Income Fund	506,135	1,379,978	4,388,190		500,000	1,277,523	8,325,000	
Fort Chicago Energy Partners L.P.	650,000	7,342,458	4,628,000		594,700	6,778,824	6,440,601	
Inter Pipeline Fund	650,000	5,521,001	4,582,500		610,000	5,139,001	5,782,800	
Keyera Facilities Income Fund	400,000	7,018,980	7,104,000		302,400	5,018,180	5,978,448	
Precision Drilling Trust	294,400	5,986,208	2,961,664		300,000	5,855,625	4,506,000	
Superior Plus Corp.	600,000	7,475,165	6,498,000		500,000	6,315,094	5,795,000	
Trinidad Drilling Ltd.	350,000	3,552,500	1,526,000		350,000	2,872,800	3,675,000	
		49,519,572	40,218,354	19.4%		41,056,468	49,847,239	15.0%
Real Estate Investment Trusts								
Extencare Reit	720,000	8,956,644	4,161,600		350,000	5,233,174	4,340,000	
H&R Reit	375,000	6,339,288	2,775,000		375,000	6,339,288	7,421,250	
Huntingdon Reit	2,200,000	5,920,000	418,000		2,200,000	5,920,000	5,038,000	
Morguard Reit	583,705	5,729,384	6,683,422		583,705	5,516,373	7,529,795	
Primaris Retail Reit	230,000	3,174,200	2,415,000		355,000	4,899,309	6,457,450	
Riocan Reit	300,000	6,114,931	4,095,000		-	-	-	
		36,234,447	20,548,022	9.9%		27,908,144	30,786,495	9.3%
Power Generation Investments								
Atlantic Power Corporation	379,200	3,912,363	2,972,928		485,000	5,003,946	5,189,500	
Boralex Power Income Fund	331,500	1,916,155	1,047,540		200,000	1,159,900	1,172,000	
		5,828,518	4,020,468	1.9%		6,163,846	6,361,500	1.9%
<i>(continued on following page)</i>								

	December 31, 2008				December 31, 2007			
	<i>Number of Units Held</i>	<i>Cost</i>	<i>Market Value</i>	<i>% of Market</i>	<i>Number of Units Held</i>	<i>Cost</i>	<i>Market Value</i>	<i>% of Market</i>
<i>(continued from previous page)</i>								
Citadel Diversified units – repurchased for cancellation	–	–	–		77,900	707,262	698,763	0.2%
Investments		244,879,232	186,443,141	89.9%		251,609,624	292,944,674	88.4%
Cash and Term Deposits		20,946,540	20,946,540	10.1%		38,394,240	38,394,240	11.6%
Total		\$ 265,825,772	\$ 207,389,681	100.0%		\$ 290,003,864	\$ 331,338,914	100.0%

All portfolio holdings are trust units, except the following: Medical Facilities Corporation, Northstar Healthcare Inc. and Atlantic Power Corporation – income participating securities; New Flyer Industries Inc. – income deposit security; Fort Chicago Partners L.P. – limited partnership units; BFI Canada Ltd., Superior Plus Corp., TransForce Inc. and Trinidad Drilling Ltd – common shares.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

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 term deposits

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 valued at fair value. The fair value of securities which are actively traded are valued at bid price as published on the recognized stock exchange on which the investment is listed or principally traded. Prior to January 1, 2007, investments were generally valued at the closing price. The fair value adjustment from the closing price as at December 31, 2006, to the closing bid price for investments at December 31, 2007, is reflected in the Statement of Changes in Net Assets for 2007. Investments not traded on the valuation date are valued at the average of the closing bid and ask prices. 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, 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 and securities lending income 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) New Accounting Standards

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3862 "Financial Instruments: Disclosure" ("Section 3862") and Section 3863 "Financial Instruments: Presentation" ("Section 3863") of the CICA Handbook, which establishes Generally Accepted Accounting Principles ("GAAP") for financial reporting purposes. These two sections replaced CICA Handbook Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires financial statement disclosures on the nature and extent of risks arising from financial instruments and how these risks are managed. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3863 describes the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections apply to fiscal years beginning on or after October 1, 2007. Section 1535 "Capital Disclosures" was issued by the CICA in 2007. This section establishes disclosure requirements about an entity's capital and provides users of the financial statements with the ability to evaluate the entity's objectives, policies and processes for managing capital. As a result, the Fund adopted these sections prospectively, beginning January 1, 2008.

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	December 31, 2008		December 31, 2007	
	Number	Amount	Number	Amount
Trust units – beginning of year	29,598,297	\$ 295,013,375	31,247,143	\$ 291,294,380
Issued for services (note 4)	5,698	51,852	7,554	75,010
Unit distribution and consolidation	–	–	–	20,245,237
Repurchase of trust units	(1,528,100)	(13,448,769)	(1,656,400)	(16,601,252)
Trust units – end of year	28,075,895	\$ 281,616,458	29,598,297	\$ 295,013,375

The weighted average number of units outstanding for the year ended December 31, 2008 was 28,849,376 units (2007 – 30,520,625 units).

The Fund declared a special unit distribution of \$0.684 per unit to unitholders of record on December 31, 2007 which was payable in units of the Fund. This unit distribution was immediately consolidated into the Fund's previously issued and outstanding units.

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. For the year ended December 31, 2008, a total of 1,450,200 trust units were repurchased for cancellation under the program at an average cost of \$8.79 per unit (2007 – 1,534,300 trust units at an average cost of \$10.10 per unit).

On November 20, 2007, the Fund entered into a normal course issuer bid whereby a total of 2,902,416 trust units may be repurchased for cancellation over a period of twelve months. In December 2007, the Fund had repurchased 200,000 units of which 122,100 units were cancelled prior to year end with the remaining 77,900 units cancelled in January 2008. The issuer bid expired on November 19, 2008.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES / DIRECTORS' FEES

Citadel Diversified Management Ltd. ("CDML") is the administrator of the Fund and therefore a related party to the Fund. Bloom Investment Counsel Inc. is the investment manager of the Fund. Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.5% of the aggregate average weekly net asset value of the Fund, payable in cash or units in advance and subject to annual adjustment. CDML elected to receive cash fees of \$4,144,232 (2007 – \$5,017,978) in respect of twelve months of services ending September 16, 2009. For the year ended December 31, 2008, the Fund recorded an expense of \$4,698,789 (2007 – \$5,928,009) in respect of administrative and investment management fees earned 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. As at December 31, 2008, included in accounts payable were amounts owed from CDML of \$20,382 (2007 – \$19,895 included in accounts payable).

Directors of CDML received a total of 5,698 units for a value of \$51,852 in September 2008 (6,195 units for a value of \$62,500 in September 2007) as payment for their annual retainers. In addition, a new director of CDML received 1,359 units for a value of \$12,503 in February 2007 for director services rendered.

During 2008, the Fund paid its Independent Review Committee a total of \$18,755 (2007 - \$14,539).

5. INVESTMENTS

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

For the years ended December 31	2008	2007
Proceeds from the sale of securities	\$ 69,303,283	\$ 155,274,012
Less cost of securities sold:		
Investments at cost – beginning of year	251,609,624	277,785,395
Investments purchased during year	61,837,697	97,885,331
Investments at cost – end of year	(244,879,232)	(251,609,624)
Cost of investments disposed of during year	68,568,089	124,061,102
Net realized gain (loss) on sale of investments	\$ 735,194	\$ 31,212,910

6. CASH DISTRIBUTIONS

The Fund distributes monthly cash distributions equal to the cash distributions received by the Fund less estimated expenses. For the years ended December 31, 2008 and 2007, the Fund also distributed a portion of its realized capital gains and/or a return of capital.

For the years ended December 31	2008	2007
Net investment income for the year	\$ 24,230,169	\$ 27,103,596
Add fees paid by issuance of units	59,400	64,381
Capital distributed	5,013,183	11,230,642
Cash distributions	29,302,752	38,398,619
Special unit distribution	–	20,245,235
Total distributions	\$ 29,302,752	\$ 58,643,854
Cash distributions per unit	1.02	1.270
Special unit distribution per unit	–	0.684
Total distributions per unit	\$ 1.02	\$ 1.954

7. LOAN FACILITY

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, 2008 and 2007. 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 28, 2009 and for a further 364 days at the option of the bank. The maximum and minimum borrowings in 2008 were nil.

8. SECURITIES LENDING

The Fund engaged in securities lending during 2008 and as at December 31, 2008, the Fund had lent out \$40.4 million (2007 – \$57.2 million) of its portfolio securities with \$43.4 million (2007 – \$60.1 million) of collateral in primarily federal and provincial bonds.

9. RISK MANAGEMENT

The Fund aims to provide unitholders with monthly distributions primarily through investments in income trusts, royalty trusts and real estate investment trusts. As a result, the Fund is exposed to the risk of being invested, on a concentrated basis, in this asset class. The Fund's investment manager uses a disciplined, fundamental approach in its investment selec-

tion and portfolio management approach which consists of an intensive and ongoing research process of investment opportunities across a broad range of investment vehicles in various industries and geographic regions. The investment manager purchases and holds securities for the Fund for the medium to long-term and also determines the timing of when to rotate the Fund's portfolio into other sectors and investment vehicles in order to enhance the Fund's portfolio performance and/or limit risk.

Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in the trust market. The Fund endeavors to invest taking a long-term perspective while focusing on quality businesses that are expected to deliver strong relative returns for unitholders. By utilizing the Fund's credit facility, unitholders are exposed to leverage such that any increase or decrease in the Fund's net assets will result in a greater proportionate increase or decrease in the net assets per unit. The best estimate of the effect on net assets due to a reasonably possible change in the S&P/TSX Capped Income Trust index ("S&P/TSX index"), with other variables held constant, is as follows. If income trust prices on the S&P/TSX index had increased or decreased by 10.00%, all other variables held constant, the net assets of the Fund would increase or decrease by 6.07%, respectively. In practice the actual results may differ from the above sensitivity analysis and the difference could be material.

Interest Rate Risk

The majority of the Fund's assets are non-interest bearing, however the Facility bears interest at prime. The Fund is also exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its investments. Excess cash and cash equivalents are invested in overnight deposits and bankers acceptances.

Credit Risk

Credit risk represents the potential loss that the Fund would incur if the counterparties failed to perform to the terms of their obligations to the Fund. The Fund maintains all of its cash and cash equivalents at its custodian. All transactions in listed securities are settled / paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Currency Risk

The assets and liabilities of the Fund are predominately held in the functional currency of the Fund which is the Canadian dollar, thus the Fund is not exposed to significant foreign currency risk.

Liquidity Risk

The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times or that the prices at which the securities trade accurately reflect their fair values. Thin trading in a security could make it difficult to liquidate holdings in a short period of time. The Fund generally maintains sufficient cash balance to meet its daily operating expenses. The Fund maintains a \$15 million credit facility for investment and operating purposes. The credit facility contains several financial covenants that require the Fund to meet certain financial ratios and financial condition tests. The Fund did not use its facility in 2008 or 2007 and therefore is within its financial covenants with respect to the credit facility.

10. CAPITAL MANAGEMENT

Citadel Diversified's capital structure consists of its credit facility and unitholders' equity. The Fund's administrator manages the Fund's capital in accordance with its investment objectives, strategies and restrictions as detailed in its Declaration of Trust. The Fund has no specific capital requirements except for certain restrictions under the credit facility.

Unitholders' equity consists of issued units, undistributed net investment income, if any, undistributed realized gains (losses) on sale of investments, if any, and unrealized gains (losses) in value of investments. Pursuant to its Declaration of Trust, the Fund is required to distribute all of its net income and net realized capital gains (as calculated for tax purposes), therefore unitholders' equity mainly represents issued units and unrealized gains or losses in value of investments.

CORPORATE INFORMATION

ADMINISTRATORS

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
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Email: info@citadelfunds.com

INVESTMENT MANAGER

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SRC.un and **CSR.un**)
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INVESTMENT MANAGER

(**EPF.un**, **SPU.un** and **CGF Resource 2008**)
Galileo Global Equity Advisors Inc.
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INVESTMENT MANAGER

(**CPF.un**)
Fiera Capital Inc.
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Montreal, Quebec H3A 3M8

REBALANCING ADVISOR

(**EQW.un** and **FPR.pr.a**)
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Calgary, Alberta T2T 5R6

INDEPENDENT REVIEW COMMITTEE

Stephen Allan - Chairman
John Watson
Duane Keinick

DIRECTORS AND OFFICERS

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Kent J. MacIntyre - Director
James T. Bruvall - Chief Executive Officer
Darren K. Duncan - Chief Financial Officer
Joseph F. MacDonald - Executive V.P. Sales & Marketing

TRUSTEE

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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**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.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**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2008 Flow-Through Limited Partnership units: not listed



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