

STATEMENT OF NET ASSETS

As at	June 30, 2009	December 31, 2008
Assets		
Investments, at market	\$ 205,857,614	\$ 186,443,141
Cash and term deposits	17,127,910	20,946,540
Prepaid expenses	9,524	2,972,226
Revenue receivable	1,735,368	2,265,181
Receivable for investments sold	1,698,170	-
Accounts receivable	-	302,503
	226,428,586	212,929,591
Liabilities		
Accounts payable and accrued liabilities	506,463	20,381
Distributions payable	1,505,790	2,386,451
	2,012,253	2,406,832
Net Assets representing Unitholders' Equity	\$ 224,416,333	\$ 210,522,759
Units outstanding (note 3)	27,377,995	28,075,895
Net Assets per unit	\$ 8.20	\$ 7.50

see accompanying notes

Signed on behalf of the Board,



Wayne L. Pushka
Director and President



Bruce K. Atchison
Chief Financial Officer

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For the six months ended June 30	2009	2008
Revenue		
Distribution income	\$ 10,318,499	\$ 14,189,919
Interest income	161,567	501,951
Securities lending income	125,786	199,933
	10,605,852	14,891,803
Expenses		
Administrative and investment manager fees (note 4)	1,674,051	2,634,438
Severance and other costs (note 4)	551,449	-
General and administration costs	268,748	187,196
Portfolio transaction costs (note 8)	101,636	151,073
Reporting costs	39,270	39,072
Directors' fees	38,038	35,586
Custodial fees	3,930	15,254
Audit fees	7,257	8,215
IRC fees	3,430	-
Trustee fees	2,184	4,439
Legal fees	69,553	190
	2,759,546	3,075,463
Net investment income	7,846,306	11,816,340
Net realized gain (loss) on sale of investments (note 5)	(6,304,903)	4,601,861
Net change in unrealized gain (loss) on investments	27,339,374	27,334,866
Total results of operations and comprehensive income	\$ 28,880,777	\$ 43,753,067
Results of operations per unit⁽¹⁾		
Net investment income	\$ 0.28	\$ 0.40
Net realized gain (loss) on sale of investments	(0.23)	0.16
Net change in unrealized gain (loss) on investments	0.99	0.94
	\$ 1.04	\$ 1.50

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

see accompanying notes

STATEMENT OF CHANGES IN NET ASSETS

For the six months ended June 30	2009	2008
Net Assets – beginning of period	\$ 210,522,759	\$ 328,028,204
Operations:		
Net investment income	7,846,306	11,816,340
Net realized gain (loss) on sale of investments	(6,304,903)	4,601,861
Net change in unrealized gain (loss) on investments	27,339,374	27,334,866
	28,880,777	43,753,067
Unitholder Transactions: (note 3)		
Repurchase of trust units	(4,182,034)	(7,725,716)
Distributions to Unitholders: (note 6)		
From net investment income	(7,846,306)	(11,847,594)
From capital gains	-	(2,986,962)
Return of capital	(2,958,863)	-
	(10,805,169)	(14,834,556)
Net Assets – end of period	\$ 224,416,333	\$ 349,220,999
Distributions per unit	\$ 0.39	\$ 0.51

see accompanying notes

STATEMENT OF INVESTMENTS

	June 30, 2009			
	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts				
AG Growth International Inc.	291,600	\$ 7,423,150	\$ 8,004,420	
Armtech Infrastructure Income Fund	420,000	5,319,206	7,434,000	
BFI Canada Ltd.	505,000	10,178,745	6,741,750	
Chemtrade Logistics Income Fund	895,800	8,510,483	6,646,836	
Colabor Income Fund	645,000	6,624,500	6,475,800	
Livingston International Income Fund	499,200	2,183,326	2,341,248	
Medical Facilities Corporation	775,500	8,516,194	6,335,835	
Morneau Sobeco Income Fund	470,000	4,274,750	4,089,000	
New Flyer Industries Inc.	544,400	5,465,329	5,346,008	
Noranda Income Fund	750,000	7,443,229	2,115,000	
Northstar Healthcare Inc.	693,700	8,273,376	430,094	
TransForce Inc.	950,000	6,792,000	5,605,000	
		81,004,288	61,564,991	27.6%
Oil & Gas Royalty Trusts				
ARC Energy Trust	600,000	6,482,230	10,626,000	
Baytex Energy Trust	400,000	4,876,000	7,808,000	
Bonavista Energy Trust	300,000	8,780,600	5,394,000	
Crescent Point Energy Trust	450,000	7,516,350	15,426,000	
Enerplus Resources Fund	370,000	13,207,125	9,298,100	
NAL Oil & Gas Trust	701,100	7,704,676	6,569,307	
Progress Energy Trust	450,688	5,982,275	4,610,538	
Vermilion Energy Trust	350,000	6,723,100	10,157,000	
		61,272,356	69,888,945	31.3%
Pipeline / Energy Investments				
AltaGas Income Trust	600,000	12,893,281	9,624,000	
Fort Chicago Energy Partners L.P.	950,000	9,442,458	8,037,000	
Just Energy Income Fund	506,135	1,379,977	5,709,203	
Inter Pipeline Fund	550,000	4,671,616	4,790,500	
Keyera Facilities Income Fund	400,000	7,018,980	7,936,000	
Precision Drilling Trust	490,132	6,617,564	2,739,838	
Superior Plus Corp.	600,000	7,475,165	6,276,000	
Trinidad Drilling Ltd.	350,000	3,552,500	1,715,000	
		53,051,541	46,827,541	21.0%
Real Estate Investment Trusts				
Extencicare Reit	1,070,000	10,484,144	6,612,600	
H&R Reit	375,000	6,339,289	4,087,500	
Huntingdon Reit	2,200,000	5,920,000	462,000	
Morguard Reit	583,705	5,729,384	5,644,427	
Primaris Retail Reit	178,400	2,462,075	2,096,200	
RioCan Reit	300,000	6,114,931	4,572,000	
		37,049,823	23,474,727	10.5%
Power Generation Investments				
Borex Power Income Fund	305,300	1,764,700	1,221,200	
Northland Power Income Fund	294,500	2,811,630	2,880,210	
		4,576,330	4,101,410	1.8%
Investments				
		236,954,338	205,857,614	92.3%
Cash and Term Deposits				
		17,127,910	17,127,910	7.7%
Total		\$ 254,082,248	\$ 222,985,524	100.0%

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2009

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.

On June 3, 2009 Citadel Fund Administrator (1472278 Alberta Ltd.) an entity in which Crown Hill Fund holds a beneficial interest, became the administrator of the Fund.

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. 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. 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.

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	June 30, 2009		December 31, 2008	
	Number	Amount	Number	Amount
Trust units – beginning of period	28,075,895	\$ 281,616,458	29,598,297	\$ 295,013,375
Issued for services (note 4)	-	-	5,698	51,852
Repurchase of trust units	(697,900)	(4,182,034)	(1,528,100)	(13,448,769)
Trust units – end of period	27,377,995	\$ 277,434,424	28,075,895	\$ 281,616,458

The weighted average number of units outstanding for the six months ended June 30, 2009 was 27,791,202 units (six

months ended June 30, 2008 – 29,218,698 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, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of such quarter. For the six months ended June 30, 2009, a total of 697,900 trust units were repurchased for cancellation under the program at an average cost of \$5.99 per unit (year ended December 31, 2008 – 1,450,200 trust units at an average cost of \$8.79 per unit).

The Fund has entered into a normal course issuer bid whereby trust units may be repurchased for cancellation. For the six months ended June 30, 2009, the Fund had repurchased nil trust units pursuant to this bid (year ended December 31, 2008 - 77,900 trust units repurchased at an average cost of \$9.08 per unit).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES AND OTHER RELATED PARTY EXPENSES

Prior to June 4, 2008 Citadel Diversified Management Ltd. ("CDML") was the administrator of the Fund and therefore, a related party to the Fund. On June 3, 2009, Citadel Funds Administrator became the administrator of the Citadel Group of Funds 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.

For the six months ended June 30, 2009, the Fund recorded an expense of \$1.7 million (June 30, 2008 – \$2.6 million) 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 June 30, 2009, included in accounts payable were amounts owed to CDML of \$372,819 (December 31, 2008 - \$16,913) and Citadel Fund Administrator of \$133,644 (December 31, 2008 – nil).

Severance and other costs include severance payments of \$456,419 made on June 3, 2009 to the departing employees of an affiliate of CDML as well as \$95,030 to terminate the office lease.

5. INVESTMENTS

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

For the six months ended June 30	2009	2008
Proceeds from the sale of securities	\$ 19,212,645	\$ 43,625,566
Less cost of securities sold:		
Investments at cost – beginning of period	244,879,230	251,609,624
Investments purchased during period	17,592,645	49,010,021
Investments at cost – end of period	(236,954,328)	(261,595,940)
Cost of investments disposed of during period	25,517,547	39,023,705
Net realized gain (loss) on sale of investments	\$ (6,304,902)	\$ 4,601,861

6. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon the cash distributions received by the Fund less estimated expenses. For the periods ended June 30, 2009 and 2008, a portion of the cash distribution was a return of capital.

For the six months ended June 30	2009	2008
Net investment income for the period	\$ 7,846,306	\$ 11,816,340
Add fees paid by issuance of units	37,545	31,254
Capital distributed	2,921,318	2,986,962
Cash distributions	\$ 10,805,169	\$ 14,834,556
Cash distributions per unit	\$ 0.39	\$ 0.51

7. LOAN FACILITY

The Fund had 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 June 30, 2009 and 2008. Borrowings were collateralized by a demand debenture in the amount of \$55,000,000 which provided a first floating charge over the Fund's assets. The maximum and minimum borrowings in the first six months of 2009 were nil. In July 2009 the Loan Facility was cancelled.

8. PORTFOLIO TRANSACTION COSTS

For the six months ended June 30, 2009, the Fund incurred portfolio transaction costs of \$101,636 (June 30, 2008 – \$151,073) and they are recorded separately in the Statement of Operations as an expense for the period.

9. SECURITIES LENDING

The Fund engaged in securities lending during the first half of 2009 and as at June 30, 2009, the Fund had lent out \$28.4 million (June 30, 2008 – \$44.0 million) of its portfolio securities with \$30.1 million (June 30, 2008 – \$46.4 million) of collateral in primarily federal and provincial bonds.

10. 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 selection and portfolio management 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 will continue to invest taking a long-term perspective while focusing on quality businesses that consistently deliver strong returns for unitholders. 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 9.17%, 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. 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.

11. CAPITAL MANAGEMENT

Citadel Diversified's capital structure consists of 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. 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 (as calculated for tax purposes) and net realized capital gains, therefore unitholders' equity mainly represents issued units and unrealized gains or losses in value of investments.

12. SUBSEQUENT EVENTS

On July 23, 2009, Citadel Fund Administrator announced that it plans to merge eight Citadel funds, including Citadel Diversified, and Crown Hill Fund into a single continuing fund to be called Citadel Income Fund. The investment manager of this new fund would be Jarislowsky, Fraser Limited. As income trusts will lose favourable tax treatment at the end of 2010, the fund must change its investment objectives and expand its investment strategies. A management information circular dated August 27, 2009 has been prepared in preparation for a special unitholders' meeting to be held on September 30, 2009 to vote on the proposed reorganization.

On August 27, 2009 Citadel Fund Administrator announced that Valiant Trust Company, a wholly-owned subsidiary of Canadian Western Bank would replace Computershare Trust Company of Canada as trustee for the Fund, effective immediately.