

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 the first half of 2009, Citadel Diversified paid total cash distributions of \$0.39 per unit based on monthly distributions of \$0.085 per unit for January and February and \$0.055 per unit for March through June. Distributions of \$0.085 were paid for the same period in 2008.

INVESTMENT HIGHLIGHTS:

	June 30, 2009	2008	2007	2006
Net Assets per Unit ⁽¹⁾	\$ 8.20	\$ 7.50	\$ 11.08	\$ 11.25
Market Price per Unit ⁽¹⁾	\$ 6.49	\$ 5.27	\$ 8.96	\$ 9.67
Trading Premium (Discount)	(20.8%)	(29.7%)	(19.1%)	(14.0%)
Cash Distributions per Unit	\$ 0.39	\$ 1.02	\$ 1.27	\$ 1.02
Trailing Yield ⁽²⁾	13.9%	19.4%	14.2%	10.5%
Market Capitalization (\$ millions)	\$ 177.7	\$ 148.0	\$ 265.2	\$ 302.2
Net Asset Value (\$ millions)	\$ 224.4	\$ 210.5	\$ 328.0	\$ 351.4

⁽¹⁾ Net assets and market price per unit are based on year end values, except June 30, 2009.

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

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

(August 27, 2009)

This interim annual report for the six months ended June 30, 2009 and 2008 includes both the interim management report of fund performance, containing financial highlights, and the unaudited interim 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.

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.

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 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.

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 in the trust sector has been significant. We expect that a significant level of takeover activity will persist in the trust sector during the next few years as trusts consider tax mitigating restructuring alternatives leading up to 2011. The tax on income trusts does not directly impact Citadel Diversified, however the tax will impact many of the holdings within its portfolio.

As the date approaches 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 income yielding equity securities, 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

The S&P/TSX Income Trust index's total return of 14.5% to June 30, 2009 lagged that of the S&P/TSX Composite total return index's 17.6% by 3.1%. The Trust index's weak performance was driven mainly by the poor showing of business trusts. By extrapolation (as there is no specific business trust index, business trusts comprise 17.3% of the trust index), business trusts appreciated by only 5.1% in the first six months of 2009. Not surprisingly, the state of the global economy was the principal driver of this weak result.

The S&P/TSX Capped Energy Trust Total Return Index (the major component of the Income Trust index now comprising 68.6% of the index) generated a 16.2% return to June 30, 2009. WTI crude oil prices started to weaken in mid-June after having risen by 56.7% since the beginning of the year to the mid \$70 per barrel area. Inventories reached a record level in the U.S. with 350.2 million barrels of crude oil now in storage. This level is 54.1 million barrels above the same period last year and 26.1 million barrels above the five-year average for this time of the year.

Canadian AECO natural gas prices hit seven year lows on July 2, 2009 closing at \$2.75 after U.S. gas storage levels rose to 2.65 trillion cubic feet, well above last year's level of 2.02 trillion cubic feet. Weak industrial demand coupled with cooler than normal early summer weather has kept downward pressure on prices. Gas "bears" look at the weak economy, their concern that additional LNG looks as if it may come to North America almost at any price due to available storage capacity here and the dramatic new supply of shale gas and conclude that the price is destined to remain low for some time. The optimists look at the collapse of drilling in North America, the steep decline rates of many fields, particularly the new shale plays, and conclude that after the usual weak early summer period, prices will rebound quickly into the coming winter.

After a stellar second quarter, the S&P/TSX Capped REIT Index (comprising 14.1% of the Income Trust index) recovered to post a 17.8% return in the first half. The year-to-date performance of the 2009 ten-year Canada bond of (6.8%) significantly lagged the return from Canadian REITs.

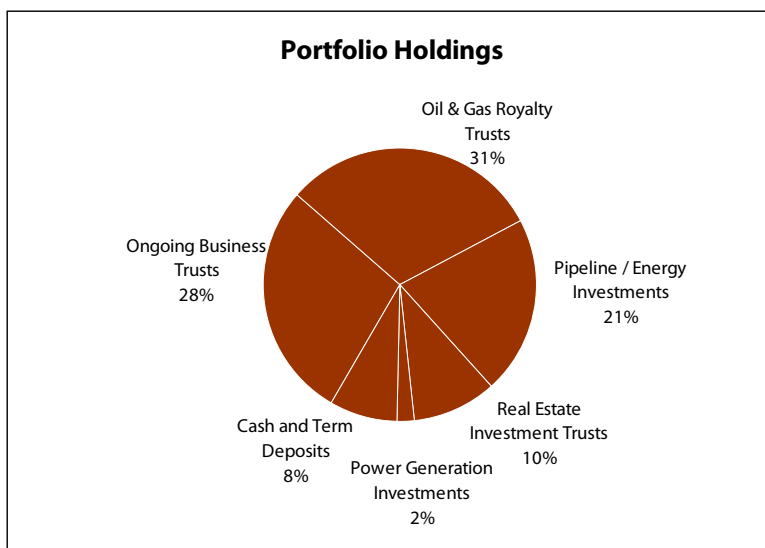
Corporate equity issuances along with income trust conversions dominated the headlines for the first half of the year. Not surprisingly, as 2011 approaches, many companies are initiating the conversion process from a trust to a corporate structure. Ag Growth, Crescent Point Energy, BFI, Progress Energy, Superior Plus all converted to a corporate structure in the first six months of 2009. We expect a number of further conversions to take place over the remainder of the year, with a surge occurring in late 2010. Equity issuance was extensive, taking advantage of the recent sharp rise in equity markets since early March. Armtec, BFI, IBI Group, Inter Pipeline, Livingston International, Morneau Sobeco, NAL Energy, Precision Drilling, RioCan Reit and Trinidad Drilling all issued equity during the last 6 months.

Finally the strength of various commodity prices helped the Canadian dollar to outperform against the U.S. dollar in the first six months of 2009. Our dollar finished on June 30, 2009 at U.S./C\$1.1630 versus U.S./C\$1.2180 on December 31, 2008 a rise of 4.5%.

Within the energy group, there was some minor profit taking in Progress Energy, Crescent Point, and Inter Pipeline.

Within our REIT investments, we trimmed our weighting in Primaris REIT after a strong relative performance despite concerns facing retail oriented REITS such as Primaris.

Among all other trusts, the only new position taken was in Morneau Sobeco, whose focus is on human resource outsourcing. Morneau benefited from the unsettled times as companies reduce staffing and provide out-placement services to recently terminated employees. We eliminated our position in Yellow Pages given significant pressures on advertising spending during the economic downturn. We expect revenues to be negatively impacted over the next few quarters. There were a number of smaller adjustments with a decrease in Atlantic Power as well as increases in AltaGas, Fort Chicago Energy Partners, Chemtrade, Northland Power and Livingston.



As a result of the Fund's strong weighting in the outperforming energy sector, Citadel Diversified's net assets grew from \$210.5 million at December 31, 2008 to \$224.4 million at June 30, 2009. On a per unit basis, the Fund's net assets also improved from \$7.50 per unit at December 31, 2008 to \$8.20 per unit at June 30, 2009.

The Fund's market price also increased significantly over the first half of 2009, up from \$5.27 per unit on December 31, 2008 to \$6.49 per unit at June 30, 2009. Citadel Diversified's market price appreciation plus monthly cash distributions produced a 30.6% total return over the first six months of 2009, while the Fund generated a 14.5% total return on a net assets basis.

Total revenue declined to \$10.6 million for the first half of 2009 from \$14.9 million in the same period of 2008, as distributions received from its underlying portfolio declined and the Fund maintained higher average cash balances throughout this year. Similarly, administrative and investment manager fees, which are based on 1.5% of the average net asset value and payable in units of the Fund or cash at the option of the Administrator, decreased from \$2.6 million in the first half of 2008 to \$1.7 million in 2009.

On June 3, 2009, the previous administrators of the Citadel Group of Funds made severance payments of \$2.2 million to their employees. As well, payments of \$0.44 million were made to terminate the lease of the former administrators. These costs have been allocated to all of Citadel Group of Funds based upon their net asset value. The Fund's portion is \$0.46 million for severance and \$0.10 million to terminate the lease and is included in severance and other costs.

The total of general and administration costs, portfolio transaction costs and other expenses not included above, totaled \$0.53 million in 2009 compared to \$0.44 million in 2008.

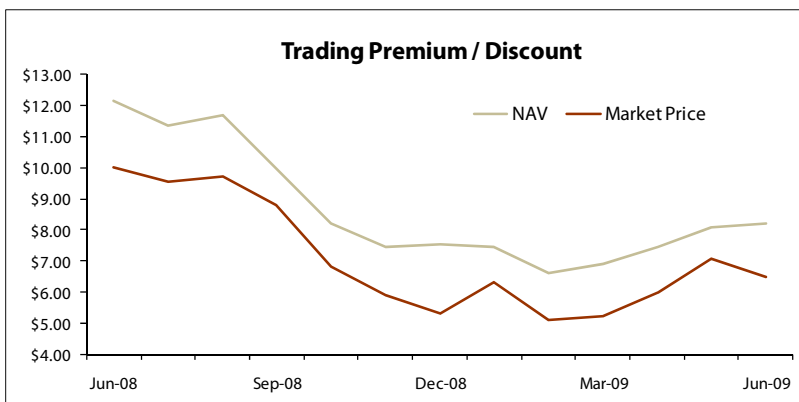
After total expenses of \$2.8 million, net investment income decreased from \$11.8 million in 2008 to \$7.8 million in the first half of 2009 due to the reduction in total revenue derived from the portfolio. On a per unit basis, net investment income was \$0.28 per unit for the first half of 2009 compared to \$0.40 per unit for the previous year.

In the 6 months ended June 30, 2009 the fund incurred a realized loss of \$6.3 million compared to realized gains of \$4.6 million over the first half of 2008. The most significant loss in 2009 was \$6.5 million on the sale of Yellow Pages Income Fund. The Fund also had \$27.3 million of unrealized gains in 2009 compared to \$27.3 million of unrealized gains in 2008 which generated total results of operations of \$28.9 million or 1.04 per unit compared to \$43.7 million or \$1.50 per unit in 2008.

During the first two months of 2009, Citadel Diversified paid monthly distributions of \$0.085 per unit and in the period March through June 2009 paid a monthly distribution of \$0.055 for a total of \$0.39 per unit or \$10.8 million compared to \$0.051 per unit or \$14.8 million for the same period in 2008.

TRADING PREMIUM (DISCOUNT) TO NET ASSET VALUE

For the first six months of 2009, the Fund's market price traded at an average discount to its net asset value per unit of 19.9% compared to an average discount of 16.2% for the same period in 2008. With this trading discount, the Fund repurchased 697,900 units at an average cost of \$5.99 per unit for the six months ended June 30, 2009 under its mandatory repurchase program compared to 735,000 units at an average cost of \$9.55 per unit for the six months ended June 30, 2008.



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.

RECENT DEVELOPMENTS

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 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 as trustee for the fund, effective immediately.

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 there from. The forward looking statements contained in this interim 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

Prior to June 4, 2009, Citadel Diversified Management Ltd. ("CDM") was the administrator of Citadel Diversified, a fund that is a member of the Citadel Group of Funds, and therefore a related party to the Fund. CIFSG Funds Inc., an affiliate of CDM and therefore also a related party to the Fund, provided administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs were allocated among the Citadel Group of Funds on a relative net asset value basis. After June 3, 2009 Citadel Fund Administrator has continued this policy of non-fund specific costs being allocated 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.

On June 3, 2009, CIFSG Funds Inc. made severance payments of \$2.2 million to its employees. As well, payments of \$0.44 million were made to terminate the lease held by CIFSG Funds Inc. and guaranteed by one of the Citadel Group of Funds. These costs were allocated to all of Citadel Group of Funds based upon their net asset value. The Fund's portion of this allocation was \$456,419 for severance and \$95,030 to terminate the lease and is included in severance and other costs.

Citadel Fund Administrator is reviewing all related party transactions that occurred since the last audited financial statements.

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 and from the unaudited interim financial statements for the six month period ended June 30, 2009.

Net Assets per Unit ("NAPU")

	June 30, 2009	2008	2007	2006	2005	2004
NAPU, beginning of period	\$ 7.50	\$ 11.08	\$ 11.25	\$ 12.13	\$ 11.66	\$ 10.77
Increase (decrease) from operations:						
Total revenue	0.38	1.03	1.12	1.05	1.03	0.99
Total expenses	(0.10)	(0.19)	(0.23)	(0.21)	(0.21)	(0.19)
Realized gains (losses)	(0.23)	0.03	1.02	(0.04)	0.04	0.30
Unrealized gains (losses)	0.99	(3.46)	(0.83)	(0.51)	0.62	1.27
Total increase (decrease) from operations	1.04	(2.59)	1.08	0.29	1.48	2.37
Distributions:						
From net investment income	0.28	0.84	0.89	0.98	1.00	0.96
From capital gains	-	0.03	0.38	-	0.04	0.08
Return of capital	0.11	0.15	-	0.04	-	-
Total cash distributions	0.39	1.02	1.27	1.02	1.04	1.04
NAPU, end of period	\$ 8.20	\$ 7.50	\$ 11.08	\$ 11.25	\$ 12.13	\$ 11.66

Net assets per unit ("NAPU") and cash distributions per unit are based on the actual number of units outstanding at the time. The June 30, 2009, December 31, 2008 and December 31, 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

	June 30, 2009	2008	2007	2006	2005	2004
Net assets (\$ 000's)	\$ 224,416	\$ 210,523	\$ 328,028	\$ 351,384	\$ 337,572	\$ 334,986
Number of units outstanding	27,377,99	28,075,895	29,598,297	31,247,143	27,834,377	28,723,526
Management expense ratio	2.58%	1.80%	1.83%	1.75%	1.78%	1.74%
Portfolio turnover ratio	8.53%	20.50%	27.66%	24.68%	15.97%	27.20%
Trading expense ratio	0.10%	0.08%	0.10%	0.11%	0.05%	0.11%
Closing market price	\$ 6.49	\$ 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.

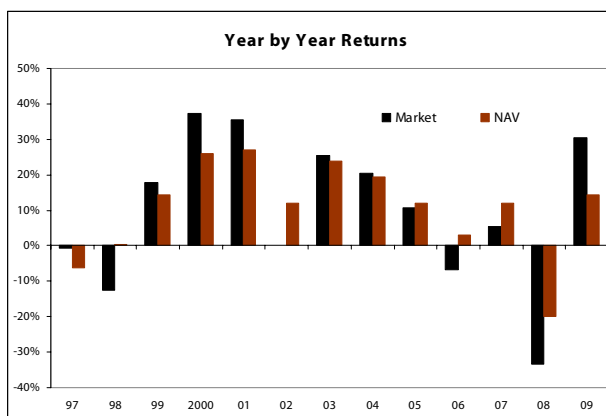
Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

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 June 30, 2009 (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 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 and the six month return for the six months ended June 30, 2009. 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. Over the first half of 2009, Citadel Diversified's net assets return performed in line with the benchmark index.

	June 30, 2009	1 Year	3 Year	5 Year	10 years	Since Inception
Citadel Diversified (market price)	30.6%	(33.4%)	(13.1%)	(2.7%)	9.1%	6.7%
Citadel Diversified (net assets)	14.5%	(23.3%)	(4.0%)	3.8%	11.7%	10.1%
S&P/TSX Capped Income Trust Index	14.5%	(26.1%)	(8.5%)	4.9%	13.5%	n/a

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2009

Net Assets: \$224,416,333

Portfolio by Sector	% of Net Assets
Oil & Gas Royalty Trusts	31.1%
Ongoing Business Trusts	27.4%
Pipeline / Energy Investments	20.9%
Real Estate Investment Trusts	10.5%
Power Generation Investments	1.8%
Cash and Term Deposits	7.6%
Other assets, net of liabilities	0.7%
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Crescent Point Energy Trust	6.9%	NAL Oil & Gas Trust	2.9%
ARC Energy Trust	4.7%	Colabor Income Fund	2.9%
Vermilion Energy Trust	4.5%	Medical Facilities Corp.	2.8%
AltaGas Income Trust	4.3%	Superior Plus Corp.	2.8%
Energy Plus Resource Fund	4.1%	Just Energy Income Fund	2.5%
Fort Chicago Energy Partners L.P.	3.6%	Morguard Reit	2.5%
AG Growth International Inc.	3.6%	Transforce Inc.	2.5%
Keyera Facilities Income Fund	3.5%	Bonavista Energy Trust	2.4%
Baytex Energy Trust	3.5%	New Flyer Industries Inc.	2.4%
Armtech Infrastructure Income Fund	3.3%	InterPipeline Fund	2.1%
IESI-BFC LTD	3.0%	Progress Energy Trust	2.1%
Chemtrade Logistics Income Fund	3.0%	RioCan Reit	2.0%
Extendicare Reit	2.9%		

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