

Citadel Resource Group Ltd

ABN 92 009 727 959

HALF YEAR REPORT
for the half year ended 31 December 2008



Level 12, 350 Collins St, Melbourne VIC 3000
www.citadelrg.com.au

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Directors' Report

Your directors present their report on the consolidated entity consisting of Citadel Resource Group Limited and the entities it controlled for the half-year ended 31 December 2008.

Directors

The names of persons who were directors of Citadel Resource Group Limited during the whole of the half-year and up to the date of this report are:

Andrew Thomson	Fletcher Quinn
Ines Scotland	David Regan
Kris Knauer (resigned 26 November 2008)	Ralph Stagg

The Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

Review of Operations

The principal activities of the Company are the exploration and development of the following base and precious metals projects on the Arabian Shield in the Kingdom of Saudi Arabia:

- Jabal Sayid (50%): world class VMS system containing Inferred and Indicated Mineral Resources of 100 Mt including 52Mt @1.6% Cu and 22 Mt @ 0.7% Cu 2.0% Zn.
- Jabal Shayban (100%): gold/copper project containing Measured and Indicated Mineral Resources of 1.8Mt at 2.8 g/t Au, 26.7 g/t Ag, 0.5% Cu which is open in all directions.
- Jabal Baydan (100%): a zinc/gold project 5km from Jabal Shayban where significant high grade zinc and gold mineralisation has been intersected.
- Lahuf (100%): lies 6km from a producing gold mine with 6Moz past production, it has a Measured and Indicated Mineral Resource of 1.7Mt at 2.6 g/t Au open at depth.
- Bari (100%): ancient gold workings covering 1.4 km of strike with historical drill results including 39m at 7.32 g/t Au, 12.86 g/t Ag and 84m at 6.75 g/t Au and 5.1 g/t Ag.
- Wadi Kamal (100%): virtually unexplored layered ultramafic complex where recent exploration has upgraded the Ni-Cu-Pt potential to high priority.
- Muraijib-Bil'iwiy (100%): limited trenching of a major alteration system which covers an area of 6km x 2km intersected 32m at 1.75 g/t Au and 12m at 1.8 g/t Au.

Jabal Sayid

During the six month period the Company achieved a significant number of milestones in the development of the Jabal Sayid Copper/Gold project. These include the upgrading of the Jabal Sayid Resource by 22% to 1.2 million tonnes of contained Copper for a total resource of 100 million tonnes, including 40 million tonnes at 2.3% copper. In addition, the confidence in the Resource was further enhanced with an increase in the tonnes classified as Indicated in the total Resource. The resource remains open at depth and along strike at Lodes 1 and 2, and at depth in Lode 4.

The Company continued the work on the Jabal Sayid Feasibility Study and has achieved a material reduction in the Capital expenditure requirements to US\$250M and operating costs of less than US\$1/lb Cu.

In addition, the Company has identified the viability of establishing a Heap Leach Gold operation by processing the Oxide resource present at surface on Lode 1.

Citadel will use the first half of 2009 to progress the Definitive Feasibility Study of Jabal Sayid, with the potential to commence mining the Oxide resource before the end of this year. This would result in Gold production in the first quarter of 2010.

Jabal Shayban

Citadel continued its drilling program at Jabal Shayban in the second half of 2008, significantly upgrading the project. Some of the assay results returned from the RC drilling program have included:

- 41m at 22.8 g/t Au incl 16m at 50.7 g/t Au (SH052RC)
- 28m at 14.2 g/t Au (SH049RC)
- 35m at 6.1 g/t Au and 19m at 10.7 g/t Au (SH043RC)
- 31m at 6.9 g/t Au incl 16m at 10.1 g/t Au (SH048RC)
- 42m at 4.6 g/t Au incl 9m at 12.7 g/t Au (SH051RC)
- 76m at 2.2 g/t Au (SH044RC)

Within the Jabal Shayban prospect area, mineralisation is marked by an extensive zone of alteration and gossanous outcrop and mainly occurs within the "Shayban Shear Zone", a locally significant deformational zone that is mapped for in excess of 2.5km in the immediate area. The Jabal Shayban project occurs within a wider 7km long by 2km wide zone of strong hydrothermal alteration. This zone also encompasses numerous areas of gossans, extensive ancient workings, anomalous geochemistry and geophysical anomalies which have previously been identified by the BRGM.

Citadel's ongoing exploration drilling program continues to demonstrate Jabal Shayban's potential to host a significant mineral resource. Mineralisation has now been delineated over a strike length of 550 metres and is currently open along strike (to the north), down dip (to the west) and down plunge (to the south).

Citadel also completed early stage leach testwork undertaken with Ammtec in Perth during the half year. The testwork is very encouraging in terms of gold recovery for either a heap leach or a conventional CIL circuit indicating excellent gold recoveries in excess of 95%. Further work will be completed over the coming year on upgrading the Resource at Jabal Shayban, with the potential to provide additional resources at the proposed Jabal Sayid Heap Leach facility.

Lahuf

The Lahuf prospect lies 12km from the operating Mahd Adh Dahab gold mine and currently has mineral resources of 1.7Mt at 2.6 g/t Au (Ma'aden 1999). During the last quarter further assessment of the project was undertaken including field verification, data compilation, interpretation and minor sampling. This work led to the development of a RC drilling program which will be commenced early in the coming quarter.

Lahuf occupies a similar stratigraphic position to the Mahd Adh Dhahab gold mine (+5Moz's Au) and similar styled mineralisation has been intersected and defined at the prospect. Lahuf consists of 3 discrete zones. The 3 zones are known as the Eastern Vein, the Central Breccia and the Western Breccia and occupy an area of approximately 1.6km by 1.2 km. The prospects are marked by significant ancient workings with the greatest excavations having occurred along the high grade Eastern Vein.

An RC rig has now been mobilised to Lahuf and will commence a 1500m program early this quarter. This program is designed to test the Eastern Vein and Central Breccia zones only. Initially the high grade Eastern Vein will be tested.

Corporate

As at 31 December 2008, cash at Bank was A\$20.3M. Total expenditure on exploration and development projects was \$8.3M.

On 26 November at the Company's Annual General Meeting, shareholders approved the issue of 224.2M shares to Consolidated Mining Company Investments Ltd to formalise the ownership structure of Jabal Sayid, through the 50% owned project company Bariq Mining Limited and the other suite of base and precious metals projects. This brings the total shares on issue to 1,168 million.

The volatility in equity markets and commodity prices has impacted the Company's share price, as it has with most other resource companies. However, the Company remains focused on advancing its suite of projects, and ensuring they are robust and economic under current market conditions. Despite this, as part of the required review of carry values at the end of the half year, an adjustment to the carrying value of the initial acquisition of Jabal Sayid has been made.

This arose due to the nature of the two acquisitions in Jabal Sayid being a share based transaction. The relevant accounting standards require Citadel to account for the acquisition based on an assessment of fair value. The fair value that has been attributed to the acquisition completed in November 2008 is less than the initial acquisition in late 2007, due to the fall in commodity prices in the second half of 2008.

Auditor's Independence Declaration

A copy of the independence declaration by the lead auditor under section 307C is included on page 6 to this half-year financial report.

This report is made in accordance with a resolution of the Board of Directors and is signed for on behalf of the directors by:



Andrew Thomson
Director



Inés Scotland
Director

Melbourne, 16 March 2009



The Board of Directors
Citadel Resource Group Limited
Level 12
350 Collins Street
Melbourne VIC 3000

Auditor's Declaration of Independence by Nicholas Burne to the Directors of Citadel Resource Group

As lead auditor for the review of the Citadel Resource Group Limited for the half-year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

This declaration is in respect of the Citadel Resource Group Limited and the entities it controlled during the period.

NICHOLAS BURNE
Director

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants

Melbourne, 16 March 2009

Citadel Resource Group Limited
ABN 92 009 727 959

Consolidated Income Statement
for the Half-Year Ended 31 December 2008

Consolidated Entity			
Half-Year			
	Note	2008	2007
		\$	\$
Revenue		782,791	128,146
Impairment of non-current assets	5	(84,962,586)	-
Advertising		-	(63,611)
Accounting and audit		(91,515)	(81,822)
Compliance, listing and legal		(211,050)	(383,157)
Consulting fees		(484,465)	(634,832)
Depreciation and amortisation		(92,213)	-
Directors fees		(116,300)	-
Employee benefits expense		(2,034,101)	(217,275)
Share-based payments		-	(3,276,315)
Financing costs		(1,538)	(43,044)
Exploration and evaluation costs		(263,289)	(231,035)
Rental costs		(328,827)	(79,332)
Doubtful debts expense		-	82,333
Other expenses		(1,281,606)	(224,054)
Loss before income tax expense		(89,084,699)	(5,023,998)
Income tax benefit		16,992,517	-
Loss after tax from continuing operations		(72,092,182)	(5,023,998)
Loss from discontinued operations		-	(63,483)
Net loss for the half-year		<u>(72,092,182)</u>	<u>(5,087,481)</u>
Loss is attributable to:			
Minority interest		(34,143,347)	-
Equity holders of the parent		(37,948,835)	(5,087,481)
		<u>(72,092,182)</u>	<u>(5,087,481)</u>
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company			
Basic loss per share		(3.86)	(1.24)
Diluted loss per share		(3.86)	(1.01)
		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the company			
Basic loss per share		(3.86)	(1.25)
Diluted loss per share		(3.86)	(1.03)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes

Citadel Resource Group Limited
ABN 92 009 727 959

Consolidated Balance Sheet
for the Half-Year Ended 31 December 2008

Consolidated Entity

	Note	31 December 2008 \$	30 June 2008 \$
CURRENT ASSETS			
Cash and cash equivalents		20,271,192	27,981,231
Trade and other receivables		1,193,239	764,340
Total Current Assets		21,464,431	28,745,571
NON-CURRENT ASSETS			
Receivables		135,000	252,148
Exploration and evaluation expenditure	5	239,239,476	244,100,991
Plant and equipment		1,191,217	372,612
Intangible assets		228,232	167,638
Total Non-Current Assets		240,793,925	244,893,389
TOTAL ASSETS		262,258,356	273,638,960
CURRENT LIABILITIES			
Trade and other payables		8,158,868	1,445,660
Provisions		173,866	-
Total Current Liabilities		8,332,734	1,445,660
NON-CURRENT LIABILITIES			
Deferred tax liabilities		24,940,000	71,884,315
Total Non-Current Liabilities		24,940,000	71,884,315
TOTAL LIABILITIES		33,272,734	73,329,975
NET ASSETS		228,985,622	200,308,985
EQUITY			
Contributed equity	3	211,928,615	189,037,454
Reserves		8,547,507	6,514,842
Accumulated losses		(85,209,385)	(47,260,550)
Total parent entity interest		135,266,737	148,291,746
Minority interest		93,718,885	52,017,239
TOTAL EQUITY		228,985,622	200,308,985

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes

Citadel Resource Group Limited
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Consolidated Statement of Changes in Equity
for the Half-Year Ended 31 December 2008

	Issued capital \$	Accumulated Losses \$	Other reserves \$	Minority interest \$	Total equity \$
At 1 July 2007	45,317,446	(40,639,700)	2,130,772	-	6,808,518
Loss for the period		(5,087,481)		-	(5,087,481)
Issue of share capital	115,298,818				115,298,818
Option reserve			6,466,122		6,466,122
Foreign currency reserve			(19,541)		(19,541)
Minority interest on acquisition				50,396,434	50,396,434
At 31 December 2007	160,616,264	(45,727,181)	8,577,353	50,396,434	173,862,870
Loss for the period		(1,533,369)		(3,952)	(1,537,321)
Injection of funds into 70% owned subsidiary			(1,670,160)	1,670,160	-
Issue of share capital	28,421,190				28,421,190
Foreign currency reserve			(392,351)		(392,351)
Minority interest on acquisition				(45,403)	(45,403)
At 30 June 2008	189,037,454	(47,260,550)	6,514,842	52,017,239	200,308,985
Loss for the period		(37,948,835)		(34,143,347)	(72,092,182)
Minority interest loss of interest in tenements transferred from Bariq Mining Ltd to Vertex Group				(5,928,000)	(5,928,000)
Minority interest gain on increase in shareholding in Bariq Mining Ltd			(1,113,440)	30,707,454	29,594,014
Minority interest gain on transfer to Bariq Mining Ltd of ownership of Jabal Sayid				50,000,000	50,000,000
Issue of share capital	22,891,161				22,891,161
Foreign currency reserve			3,146,105	1,065,539	4,211,644
At 31 December 2008	211,928,615	(85,209,385)	8,547,507	93,718,885	228,985,622

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

Citadel Resource Group Limited
ABN 92 009 727 959

Consolidated Cash Flow Statement
for the Half-Year Ended 31 December 2008

	Consolidated Entity	
	Half-Year	
	2008	2007
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	31,288	232,350
Payments to suppliers and employees	(1,803,984)	(1,927,649)
Interest received	758,925	128,146
Interest and other costs of finance paid	(1,538)	(43,044)
Net cash outflow from operating activities	(1,015,309)	(1,610,197)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	(790,124)	(3,196)
Payments for software	(66,435)	-
Proceeds from sale of assets	-	284,033
Payments for capitalised exploration and evaluation	(8,361,574)	-
Payment to acquire subsidiaries – net of cash acquired	-	(809,191)
Net cash outflow from investing activities	(9,218,133)	(528,354)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment to lessors	-	(592,882)
Proceeds from issue of shares	557,175	3,253,458
Net cash inflow from financing activities	557,175	2,660,576
NET (DECREASE)/INCREASE IN CASH HELD	(9,676,267)	522,025
Net cash at beginning of period	27,981,231	5,775,780
Effects of exchange rate changes on the balances of cash held in foreign currencies	1,966,228	-
NET CASH AT END OF PERIOD	20,271,192	6,297,805

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes

Citadel Resource Group Limited

ABN 92 009 727 959

**Notes To The Financial Statements
for the Half-Year Ended 31 December 2008**

Note 1. Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with Australian Accounting Standard 134 "Interim Financial Reporting" and the Corporations Act 2001.

This interim report does not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Citadel Resource Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this interim financial report as compared with the most recent annual financial report.

a.) Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal trading activities and realisation of assets and settlement of liabilities in the normal course of business. The ongoing viability of Citadel Resource Group Limited is dependent upon further successful raising of equity from the market and the subsequent successful performance as a minerals explorer and developer of its mineral resources. As at the date of this report the group's only significant assets are cash and its exploration and evaluation assets.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

Note 2. Segment Information

Primary reporting - business segment

During the period the consolidated entity's primary activity is mineral exploration in Saudi Arabia.

During the 2007 half-year reporting period the consolidated entity discontinued operating in the business segment of Radiology Medical Centres within Australia and commenced primary operations in mineral exploration in Saudi Arabia.

The discontinued operations resulted in a loss of \$63,483 in the 2007 half year and all other reported results are attributable to the primary operation of mineral exploration.

Note 3. Equity Securities Issued

	Half-Year			
	2008		2007	
	Shares	\$	Shares	\$
Issues of Ordinary Shares During the Half-Year				
Shares issued on acquisition of additional 50% interest in Jabal Sayid	224,236,513	22,333,986	-	-
Shares issued to subscribers	-	-	399,000,000	108,468,326
Conversion of Convertible Notes to Ordinary shares	-	-	36,061,617	4,487,559
Conversion of options to Ordinary shares	-	-	36,089,436	2,242,933
Partly paid shares issued	-	-	66,006,612	100,000
Calls on partly paid shares issued	-	557,175	-	-
Movement for the period	<u>224,236,513</u>	<u>22,891,161</u>	<u>537,157,665</u>	<u>115,298,818</u>

Note 4. Contingent Liabilities

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date, 30 June 2008.

Note 5. Exploration and Evaluation Assets

	31 December 2008 \$	30 June 2008 \$
Balance at beginning of the period	244,100,991	-
Effects of movements in exchange rates	1,752,579	-
Expenditure capitalised during the current period	8,300,290	4,626,764
Exploration asset acquired as part of business combination	-	239,474,227
Additional 50% of Jabal Sayid acquired on restructure	100,000,000	-
Adjustment to deferred tax liability	(29,951,798)	-
Impairment	(84,962,586)	-
	<u>239,239,476</u>	<u>244,100,991</u>

The Company entered into an Acquisition Agreement with Central Mining Investments Company Limited (CMCI) relating to the transfer of ownership of the Jabal Sayid and Jabal Shayban tenements and relinquishment of rights in other tenements in Saudi Arabia in exchange for the issue of shares, the payment of cash and the adjustment of interests held by the Company and CMCI in Bariq Mining Limited. Full details were included in the 2008 Annual General Meeting Explanatory Memorandum.

The associated change in interest in the Jabal Sayid project has precipitated a review of the carrying value of the asset and the asset has been assessed for impairment.

The Company undertook a value in use assessment of the Jabal Sayid project based on the assumptions made in the Feasibility Study released to the market on 4 March 2009. The assessment of the project was undertaken using a range for the following key assumptions:-

Copper price: US\$1.40/lb - US\$1.80/lb

Exchange rate: US\$:AUD 0.6500 - 0.7000

After tax discount rate: 10% - 12%

The value in use methodology reported above, together with an analysis of the market capitalisation of the Company and associated valuations of comparable copper projects resulted in the Directors of Citadel Resource Group Limited electing to write down the value of the project by \$84,962,586.

The impairment write down of \$84,962,586 of previously capitalised exploration expenditure on Jabal Sayid has an associated tax benefit of \$16,992,517. The minority interest will be attributed with \$33,985,035 of the net after tax impairment expense.

Note 6. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in the most recent annual financial report.

Name of entity	Class of shares	Country of Incorporation	Equity Holding	
			31 December 2008	30 June 2008
			%	%
DBC Finance Pty Ltd	Ordinary	Australia	100	100
ADV Medical Holdings Pty Ltd	Ordinary	Australia	100	100
Vertex Group (Middle East) WLL	Ordinary	Bahrain	100	100
Bariq Mining Limited	Ordinary	Saudi Arabia	50	70

The change in equity holding for Bariq Mining Ltd is a result of the restructure listed under Note 5.

Note 7. Events Subsequent To Balance Date

There have been no subsequent events that would have a material impact on the financial report for the half year ended 31 December 2008.

Declaration by Directors

The directors of the Company declare that:

1. The financial statements, comprising the income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the directors by:



Andrew Thomson
Director



Inés Scotland
Director

Melbourne, 16 March 2009



Independent Auditor's Review Report

To the members of Citadel Resource Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Citadel Resource Group Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Citadel Resource Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Citadel Resource Group Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.



BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd



NICHOLAS BURNE

Director

Melbourne, 16 March 2009