

For personal use only

Citadel Resource Group Ltd

ABN 92 009 727 959

**HALF YEAR CONSOLIDATED FINANCIAL STATEMENTS
for the half year ended 31 December 2009**



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

Table of Contents

Directors' Report.....	3
Declaration of Independence by Nicholas Burne to the Directors of Citadel Resource Group Limited.....	10
Consolidated Statement of Comprehensive Income	11
Consolidated Statement of Financial Position	12
Consolidated Statement of Changes in Equity.....	13
Consolidated Statement of Cash Flows.....	15
Notes To The Financial Statements.....	16
Declaration by Directors	21
Independent Auditor's Review Report.....	22

For personal use only

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 2009.

Directors

The names of persons who were directors of Citadel Resource Group Limited during the half year are:

Andrew Thomson

Ines Scotland

David Regan

Ralph Stagg

Fletcher Quinn until his retirement effective 27 November 2009

Peter Lester (appointed as an executive director on 1 October 2009)

Gary Scanlan (appointed as a non-executive director on 14 December 2009).

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 base and precious metals projects on the Arabian Shield in the Kingdom of Saudi Arabia.

Asset	Ownership	Target Metals	Comment
Jabal Sayid	50%	Cu, Au	<ul style="list-style-type: none"> DFS completed Resource of 31Mt at 2.3% Cu (Lodes 2 & 4 only, using a 0.8% cutoff) SNC Lavalin were appointed as the Engineering, Procurement and Construction Manager A Concentrate Sales Agreement for approximately 20% of the expected per annum production of 240,000t was entered into with the international commodity trading house Transamine SA Scoping study commenced into the development of Lode 1
Jabal Shayban	100%	Au, Ag, Cu, Zn	<ul style="list-style-type: none"> Prospective for precious and base metal volcanic hosted massive sulphide (VHMS) Near term focus on expanding current resource of 1.8 Mt at 2.7 g/t Au, 23.1 g/t Ag and 0.46% Cu Application to renew the exploration license submitted
Jabal Baydan	100%	Zn, Au, Cu	<ul style="list-style-type: none"> Prospective for precious and base metal VHMS and gold-sulphide epithermal vein-style deposits Located along strike from Jabal Shayban
Bari	100%	Au, Cu	<ul style="list-style-type: none"> Prospective for porphyry gold and copper style mineralisation A drilling program has commenced and will continue to test the nature and extent of the porphyry mineralisation
Wadi Kamal	100%	Ni, Cu, PGE	<ul style="list-style-type: none"> Prospective for nickel-copper and platinum group minerals 2010 exploration program to include a ground EM survey and follow-up drilling.
Lahuf	100%	Au	<ul style="list-style-type: none"> Prospective for precious metal epithermal style mineralisation Near term focus on gaining a better understanding of the structural controls of the mineralisation and mapping and sampling of the area
Ram Ram	100%	Au	<ul style="list-style-type: none"> Prospective for epithermal type gold-sulphide vein mineralisation Previous data to be compiled, followed by field checking, geological mapping and selected sampling of area
Idhkiri West	100%	Au, Cu	<ul style="list-style-type: none"> Prospective for gold and copper porphyry-style mineralisation Previous exploration data to be compiled, followed by an initial program of field checking, mapping and sampling
Qunnawat South	100%	Au, Cu	<ul style="list-style-type: none"> Prospective for gold and copper porphyry-style mineralisation Previous exploration data to be compiled, followed by an initial program of field checking, mapping and sampling
Murayjib	100%	Au	<ul style="list-style-type: none"> Prospective for mesothermal vein-style gold deposits Additional mapping, sampling and drilling to be conducted

JABAL SAYID

Definitive Feasibility Study

On 14 December 2009, the company released the results of its Definitive Feasibility Study (DFS) for Jabal Sayid. Based on the results of the DFS, Jabal Sayid will produce on average 57,000 tpa of contained copper, as well as payable gold and silver, over an initial 10 year life from a mining plan containing approximately 26.2 Mt of ore at an average head grade of 2.25% copper. Jabal Sayid will comprise a conventional flotation processing plant to produce a clean concentrate which is planned to be exported from the Yanbu Commercial Port to smelters in the Middle East, India, Europe, South-East Asia and China.

Summary of Jabal Sayid key project parameters

Resource:	31 Mt at 2.3% Cu (Lodes 2 & 4 only, using a 0.8% cutoff)
Reserve:	24.4 Mt @ 2.2% Cu (78% of Resource)
Mine plan:	26.2 Mt @ 2.25% Cu, 0.28 g/t Au, 9.92 g/t Ag (93% being in Reserve)
Project development cost:	US\$280 million (US\$222 million capital, US \$38 million contingency, US\$20 million owners costs)
Operating cash cost (net of precious metal credits) ³ :	US\$0.94 lb copper produced , US\$0.97 lb payable copper
Mining Method:	Sub-level open stopes mining 2.6 Mtpa of ore
Concentrate:	Average 249,000 tpa containing 57,000 tpa Copper
Precious Metals:	146,000 oz Au and 5.8 Moz Ag over the Life of Mine
Construction Time:	17 months
Commissioning:	3 months
Production Ramp-up:	Year 1 – 1.4 Mt (part year); Year 2 – 2.6 Mt; Year 3 – 2.6 Mt

Note: Figures in the above table have been rounded

Other Milestones for the Jabal Sayid project during the half year included:

- A Concentrate Sales Agreement for approximately 20% of the expected per annum production of 240,000t was entered into with the international commodity trading house Transamine SA.
- A mandate was signed with West LB and Riyadh Bank for project financing. Due diligence work continued with the lenders technical and legal advisors. An indicative term sheet and company information memorandum was provided to a group of Saudi and Western project financiers to invite expressions of interest.
- SNC Lavalin were appointed as the Engineering, Procurement and Construction Manager for the project.
- The Environmental and Social Impact Assessment for Jabal Sayid was completed and lodged for regulatory approval.
- Byrncut International were mobilised to commence early decline rehabilitation work.
- A scoping study was commenced on the Lode 1 open cut at Jabal Sayid. The Lode 1

³ Based on an assumed life of mine gold price of US\$850/oz and silver price of US\$12.50/oz

For personal use only

resource contains, copper, gold and zinc in Inferred and Indicated categories (169kt of contained copper metal and 309,000oz of gold). Resource definition drilling has commenced to convert the resource into measure and indicated.

Jabal Sayid DFS

The DFS was completed by SNC-Lavalin and consultants including Coffey Mining and a Citadel owner's team. The study commenced in February 2009 with a total of 700,000 man hours completed for drilling, mining, metallurgy and engineering.

The DFS confirms Jabal Sayid as one of the world's premier developing copper-gold mines, with characteristics including:

- **High level of Resource certainty with upside potential** – Mining inventory of 26.2Mt with 24.4Mt in Reserves (93%) at a copper grade of 2.3% (based on Lodes 2 and 4 only with expansion potential from Lode 1).
- **Low capital cost intensity** – At a capital cost of US\$280M (including a substantial contingency and owners cost allowance), Jabal Sayid will have a low capital cost per tonne of annual production, ranking it amongst the world's most capital efficient copper projects of similar size and scale.
- **Competitive operating fundamentals** – Average cash operating cost of US\$0.94/lb produced (US\$0.97/lb payable net of precious metal credits) over life-of-mine will rank Jabal Sayid well within the 2nd quartile (compared to current London Metal Exchange copper cash price in excess of US\$3/lb).
- **Established project and regional infrastructure** – Existing 2.1km long decline passes through all three known deposit Lodes enabling short lead time to primary stoping production. Major regional infrastructure is located close to the project site, such as sealed highway access, which will facilitate efficient delivery of project materials during construction.
- **High quality concentrate** – Clean concentrate containing 25-27% copper with no penalty elements expected to be highly sought after by any smelter in the region or globally.
- **Proximity to markets** – Logistically well placed project location close to main east-west trade route to key markets in Europe, China and India.

The DFS demonstrated that the Jabal Sayid project is both technically and financially robust. The mining and processing methods are well proven and comfortably within industry standards. The financial outcomes demonstrate that the project will be sound at a variety of copper prices.

For personal use only

Projected Capital and Operating Costs

Pre-Production Capital Costs

	US\$M
Mine:	\$63.5
Process Plant:	\$57.8
Infrastructure, Services, reagents:	\$39.3
Tailings & offsite infrastructure:	\$28.7
Field Indirects:	\$11.4
EPCM Services:	\$20.2
Owners Costs:	\$20.5
Contingency & Escalation:	\$38.3
Total:	\$279.7

Cash Operating Costs

	Total	Per Tonne Ore	Per Cu payable
	US\$M	US\$/t	US\$/lb
Mining:	58.7	22.41	0.49
Concentrator:	27.8	10.60	0.23
Administration:	10.2	3.89	0.09
Logistics:	12.7	4.87	0.11
TC/RC:	23.9	9.12	0.20
Total Cash Opex:	133.3	50.89	1.12
Precious Metals Credit:	(17.6)	(6.71)	(0.15)
Net Cash Opex	115.7	44.18	0.97

Lode 1 Open Cut Expansion Potential

The discovery of Jabal Sayid commenced with drilling of Lode 1. A gold bearing oxide cap outcrops in a prominent, 200m long knoll which merges with disseminated and massive sulphide copper and minor zinc mineralisation which is open at depth. The sulphide contains significant gold and silver.

With the recently completed Lodes 2 and 4 DFS having a processing plant capacity well above mine capacity, Lode 1 is being evaluated as an additional ore source with extraction initially from an open pit and ultimately from underground.

A scoping study for the open pit comprising both mine optimisation and metallurgical test work on the oxide gold and sulphide base and precious metals is currently in progress. This is building on earlier work done in 2008/09 and is expected to lead to a formal feasibility study in the near future. An additional drilling program to upgrade the Resource and provide further metallurgical samples is about to commence.

Mining License

The application for the Jabal Sayid Exploitation (mining) License has been lodged with the Deputy Ministry for Mineral Resources (DMMR).

In January 2010, the Deputy Ministry for Mineral Resources (DMMR), who manages exploration and mining licenses in Saudi Arabia, requested a project execution plan for Jabal Sayid as well as a project summary. These have been provided and reviewed by the DMMR for attachment to the

For personal use only

Exploitation License for Jabal Sayid. The Company understands that the Exploitation Licence has now been sent to Riyadh for final review and approval of the Minister.

The Company is continuing to work with Ministry officials to facilitate the issuing of the license in an expedited manner.

Marketing, Shipping and logistics

Agreement on rates and charges was reached with the Yanbu Port Authority for port access and rental of a storage shed within the port area. Formal documentation of a rental agreement has commenced. Key commercial terms have also been agreed with the port stevedore, Ajwa Port Services, for loading of Jabal Sayid concentrate onto vessels for export in bulk with formal documentation to be completed in the coming quarter. Tenders for road logistics and port stockpile management have been sent out. The Red Sea Port of Yanbu is approximately 400km from the Jabal Sayid Project and is connected to the mine site by a system of existing two and six lane sealed highways. The port has a draft which will comfortably accommodate handy-size and handy-max vessels for shipment of concentrates in bulk to ports in the Middle East, Europe, India and Asia.

Copper concentrate demand is very strong and the market is forecast to be in deficit for a number of years due to planned smelter expansions and continual supply side constraints. The Jabal Sayid concentrate contains a good copper grade at 25-27% and is exceptionally clean, containing no elements which are likely to be subject to a penalty. During the quarter a five year 50,000 dry metric tonne per annum offtake contract was agreed with international trading house Transamine SA. Transamine SA is one of the oldest, independent, privately held commodities trading companies in the world specialising in raw materials. Off-take contracts are in the process of being negotiated with preferred counterparties for the majority of the mine's annual production.

Finance

During the half year WestLB and Riyadh Bank were appointed to act as joint lead advisors in relation to the arranging of the debt financing of the Jabal Sayid project.

An information memorandum was sent to a group of Saudi and international banks inviting expressions of interest in the proposed debt transaction and responses were received in January 2010. The banks' required independent experts have all been appointed and lenders' due diligence is well underway. Marketing of the project to potential financiers in the Middle East, Europe and Australia is ongoing. Over the balance of this coming year the Company will work with a small number of local Saudi banks and international banks to arrange and complete negotiations of the project financing.

EXPLORATION PROJECTS

Jabal Shayban

During the half year Citadel completed its third drilling campaign designed to better define and expand the resource at Jabal Shayban. Multiple high grade "stacked" gold zones have been discovered and these will be included in an updated Resource which is expected to be completed by March 2010. Within the greater Jabal Shayban area under exploration license is Jabal Matorber, which is located approximately 2km to the north-east of Shayban. The geology consists of felsic tuffs with auriferous quartz-pyrite-chalcopyrite veins that are locally cut by dolerite dykes.

For personal use only

Reconnaissance exploration discovered additional outcrops of gossan and jasper located about 800 metres south of the Jabal Baydan deposit suggesting that the ore body is open to the south. The area lying between Shayban and Baydan also hosts numerous gossans and anomalous geochemistry. A geophysical EM survey across these area's are scheduled for March and April 2010

Mahd Adh Dhahab Project Areas

Bari

Bari is located 38km south-east of the Mahd Adh Dhahab gold mine and is within 80km of Citadel's Jabal Sayid project. It comprises a cluster of over 180 ancient gold workings covering an area of 10 sqkm. An ancient slag dump containing in excess of 3,000 tonnes of slag demonstrates the extensive ancient mining activity.

Citadel's exploration activities at Bari during 2009 included:

- reverse circulation drilling and diamond core drilling;
- 30km² of detailed 1:2,000 scale mapping and sampling;
- a detailed ground magnetic survey comprising 375 line km in total; and
- Spectral data analysis and interpretation.

This work, particularly the diamond core and reverse circulation drilling, will continue through 2010 with the program designed to explore for and test the nature and extent of the porphyry style mineralisation observed at Bari.

Lahuf

The Lahuf prospect is located about 10km along strike from the operating Mahd Adh Dhahab gold mine. The geology is dominated by andesites and related tuffs of the Lahuf and Tuwal Formations that are locally intruded by felsic porphyry dykes and rhyolite plugs. In places, the andesites and tuffs are intersected by low-sulphidation epithermal quartz vein systems trending northwest or north-south.

During 2009, Citadel conducted an initial drilling program including percussion and diamond drilling. Over the next twelve months the exploration program will focus on gaining a better understanding of the structural controls of mineralisation within the Lahuf prospect, as well as exploring further afield within the project area through detailed mapping and sampling. A number of additional highly prospective areas have already been identified and these are planned to be drill tested during 2010.

Wadi Kamal

Located close to the Red Sea and north of the port city of Yanbu, the Wadi Kamal project is centered on an intact mafic/ultramafic layered intrusion. The Wadi Kamal Project covers the southern portion of this layered igneous complex that outcrops over an area of about 500km².

A systematic exploration program of ground EM surveying will be conducted in 2010 targeting massive Ni and Cu +/- PGE mineralisation over the most prospective sequences within the ultramafic/mafic intrusion. Upon completion of the EM survey drill targets will be ranked and drilling prioritised.

For personal use only

Corporate

As at 31 December 2009, cash at Bank was A\$33,182,666. Total expenditure on exploration and development projects was A\$15,321,725.

The Shareholder Sale Facility offer was completed for unmarketable parcels of shares equivalent in value to or below A\$500. This resulted in the removal of approximately 800 shareholders with unmarketable parcels thus saving the company substantial administration costs.

The final call of the partly paid shares issued by the Company was completed in December 2009. On 19 August 2009, the Company entered into a \$25 million share placement and concentrate offtake arrangement with Transamine SA, a global non-ferrous trading house, for the sale of 50,000 dry metric tonnes per annum of copper concentrate. The share placement resulted in the issue of 72.6 million ordinary shares at a price of 34.5 cents per share which was at a 30% premium to the 5 day VWAP price as at 18 August 2009.

Auditor's Independence Declaration

A copy of the independence declaration by the lead auditor under section 307C is included on page 10 to these half-year financial statements.

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, 15 February 2010

For personal use only

15 February 2010

DECLARATION OF INDEPENDENCE BY NICHOLAS BURNE TO THE DIRECTORS OF CITADEL RESOURCE GROUP LIMITED

As lead auditor for the review of Citadel Resource Group Limited for the half-year ended 31 December 2009, 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
- no contraventions of any applicable code of professional conduct in relation to the review.

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



Nicholas E Burne

Director



BDO Audit (NSW-VIC) Pty Ltd

Melbourne, 15 February 2010

For personal use only

Citadel Resource Group Limited
ABN 92 009 727 959
Consolidated Statement of Comprehensive Income
for the Half-Year Ended 31 December 2009

		Consolidated Entity	
		Half Year	
	Note	2009	2008
		\$	\$
Revenue		502,079	782,791
Impairment of non-current assets	5	-	(84,962,586)
Accounting and audit		(38,680)	(91,515)
Compliance, listing and legal		(576,939)	(211,050)
Consulting fees		(320,230)	(484,465)
Depreciation and amortisation		(146,632)	(92,213)
Directors fees		(151,540)	(116,300)
Employee benefits expense		(2,325,917)	(2,034,101)
Share based payments		(229,559)	-
Financing costs		(322,776)	(1,538)
Exploration and evaluation costs		(1,635,168)	(263,289)
Rental costs		(465,691)	(328,827)
Travel expenses		(456,141)	(479,266)
Office expenses		(278,425)	(367,057)
Other expenses		(677,041)	(435,283)
Loss before income tax expense		(7,122,660)	(89,084,699)
Income tax (expense)/benefit		(2,565,200)	16,992,517
Net loss for the half-year from continuing operations		<u>(9,687,860)</u>	<u>(72,092,182)</u>
Other comprehensive income			
Foreign currency translation differences		(11,627,709)	4,211,644
Income tax on items of other comprehensive income		-	-
Other comprehensive income, net of tax		<u>(11,627,709)</u>	<u>4,211,644</u>
Total comprehensive income for the half-year		<u>(21,315,569)</u>	<u>(67,880,538)</u>
Loss is attributable to:			
Owners of Citadel Resource Group Limited		(8,600,163)	(37,948,835)
Non-controlling interest		(1,087,697)	(34,143,347)
		<u>(9,687,860)</u>	<u>(72,092,182)</u>
Total comprehensive income is attributable to:			
Owners of Citadel Resource Group Limited		(15,771,760)	(34,802,730)
Non-controlling interest		(5,543,809)	(33,077,808)
		<u>(21,315,569)</u>	<u>(67,880,538)</u>
Earnings per share attributable to owners of Citadel Resource Group Limited		Cents	Cents
Basic loss per share		(0.60)	(3.86)
Diluted loss per share		(0.60)	(3.86)

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

For personal use only

Citadel Resource Group Limited
ABN 92 009 727 959
Consolidated Statement of Financial Position
as at 31 December 2009

	Note	Consolidated Entity	
		31 December 2009 \$	30 June 2009 \$
CURRENT ASSETS			
Cash and cash equivalents		33,182,666	25,192,651
Trade and other receivables		970,427	1,462,869
Total Current Assets		<u>34,153,093</u>	<u>26,655,520</u>
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	5	235,368,395	233,514,811
Plant and equipment		1,202,953	1,011,116
Intangible assets		338,258	232,029
Total Non-Current Assets		<u>236,909,606</u>	<u>234,757,956</u>
TOTAL ASSETS		<u>271,062,699</u>	<u>261,413,476</u>
CURRENT LIABILITIES			
Trade and other payables		10,185,279	9,162,204
Tax payable		2,500,000	-
Provisions		1,670,544	918,777
Total Current Liabilities		<u>14,355,823</u>	<u>10,080,981</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		14,538,096	14,656,600
Provisions		136,126	110,385
Total Non-Current Liabilities		<u>14,674,222</u>	<u>14,766,985</u>
TOTAL LIABILITIES		<u>29,030,045</u>	<u>24,847,966</u>
NET ASSETS		<u>242,032,654</u>	<u>236,565,510</u>
EQUITY			
Contributed equity	4	260,654,844	234,101,690
Reserves		(7,896,072)	(954,034)
Accumulated losses		(100,591,402)	(91,991,239)
Capital and reserves attributable to owners of Citadel Resource Group Limited		152,167,370	141,156,417
Non-controlling interest		89,865,284	95,409,093
TOTAL EQUITY		<u>242,032,654</u>	<u>236,565,510</u>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

For personal use only

Citadel Resource Group Limited
ABN 92 009 727 959
Consolidated Statement of Changes in Equity
for the Half-Year Ended 31 December 2009

	Contributed equity \$	Accumulated Losses \$	Other reserves \$	Total \$	Non- controlling interest \$	Total equity \$
At 1 July 2008	189,037,454	(47,260,550)	6,514,842	148,291,746	52,017,239	200,308,985
Loss for the period	-	(37,948,835)	-	(37,948,835)	(34,143,347)	(72,092,182)
Exchange differences on translation of foreign operations	-	-	3,146,105	3,146,105	1,065,539	4,211,644
Total comprehensive income for the period	-	(37,948,835)	3,146,105	(34,802,730)	(33,077,808)	(67,880,538)
Non-controlling interest loss of interest in tenements transferred from Bariq Mining Ltd to Vertex Group	-	-	-	-	(5,928,000)	(5,928,000)
Non-controlling interest gain on increase in shareholding in Bariq Mining Ltd	-	-	(1,113,440)	(1,113,440)	30,707,454	29,594,014
Non-controlling 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	-	22,891,161
Transactions with owners in their capacity as owners	22,891,161	-	(1,113,440)	21,777,721	74,779,454	96,557,175
At 31 December 2008	211,928,615	(85,209,385)	8,547,507	135,266,737	93,718,885	228,985,622
Loss for the period	-	(6,781,854)	-	(6,781,854)	(829,226)	(7,611,080)
Exchange differences on translation of foreign operations	-	-	(11,263,118)	(11,263,118)	(7,480,566)	(18,743,684)
Total comprehensive income for the period	-	(6,781,854)	(11,263,118)	(18,044,972)	(8,309,792)	(26,354,764)
Adjustment of non-controlling interest share of deferred tax liability	-	-	-	-	10,000,000	10,000,000
Issue of share capital	22,173,075	-	-	22,173,075	-	22,173,075
Option reserve	-	-	1,761,577	1,761,577	-	1,761,577
Transactions with owners in their capacity as owners	22,173,075	-	1,761,577	23,934,652	10,000,000	33,934,652
At 30 June 2009	234,101,690	(91,991,239)	(954,034)	141,156,417	95,409,093	236,565,510

Citadel Resource Group Limited
ABN 92 009 727 959
Consolidated Statement of Changes in Equity
for the Half-Year Ended 31 December 2009

	Contributed equity \$	Accumulated Losses \$	Other reserves \$	Total \$	Non- controlling interest \$	Total equity \$
At 30 June 2009	234,101,690	(91,991,239)	(954,034)	141,156,417	95,409,093	236,565,510
Loss for the period	-	(8,600,163)	-	(8,600,163)	(1,087,697)	(9,687,860)
Exchange differences on translation of foreign operations	-	-	(7,171,597)	(7,171,597)	(4,456,112)	(11,627,709)
Total comprehensive income for the period	-	(8,600,163)	(7,171,597)	(15,771,760)	(5,543,809)	(21,315,569)
Issue of share capital	26,553,154	-	-	26,553,154	-	26,553,154
Option reserve	-	-	229,559	229,559	-	229,559
Transactions with owners in their capacity as owners	26,553,154	-	229,559	26,782,713	-	26,782,713
At 31 December 2009	260,654,844	(100,591,402)	(7,896,072)	152,167,370	89,865,284	242,032,654

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

For personal use only

Citadel Resource Group Limited
ABN 92 009 727 959
Consolidated Statement of Cash Flows
for the Half-Year Ended 31 December 2009

	Consolidated Entity	
	Half Year	
	2009	2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	40,108	31,288
Payments to suppliers and employees	(6,158,585)	(1,803,984)
Interest received	574,429	758,925
Interest and other costs of finance paid	(42,848)	(1,538)
Net cash outflow from operating activities	(5,586,896)	(1,015,309)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant and equipment	(358,852)	(790,124)
Payments for software	(152,745)	(66,435)
Payments for capitalised exploration and evaluation	(12,182,474)	(8,361,574)
Net cash outflow from investing activities	(12,694,071)	(9,218,133)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	26,803,154	557,175
Payments for share issue costs	(250,000)	-
Net cash inflow from financing activities	26,553,154	557,175
NET INCREASE/(DECREASE) IN CASH HELD	8,272,187	(9,676,267)
Net cash at beginning of period	25,192,651	27,981,231
Effects of exchange rate changes on the balances of cash held in foreign currencies	(282,172)	1,966,228
NET CASH AT END OF PERIOD	33,182,666	20,271,192

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

For personal use only

Citadel Resource Group Limited
ABN 92 009 727 959
Notes To The Financial Statements

for the Half-Year Ended 31 December 2009

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

These general purpose financial statements for the interim half-year reporting period ended 31 December 2009 have been prepared in accordance with Australian Accounting Standard 134 "Interim Financial Reporting" and the Corporations Act 2001.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements 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 statements.

Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2009 and any public announcements made by Citadel Resource Group Limited during the half-year 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 these half-year financial statements as compared with the most recent annual financial statements. The group has applied AASB 8 Operating Segments from 1 July 2009 (refer Note 3.). There have been no other additional accounting policies applicable for the first time during this period.

Note 2. Accounting Estimates and Judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation and uncertainty considered by management in preparing the consolidated financial statements is described below:

Exploration and evaluation

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances.

Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the income statement in the period when the new information becomes available.

For personal use only

Tax payable

Management have become aware during the period of the existence of a potential capital gains tax liability on a past business combination and have sought professional advice as to confirmation of that liability and an estimate of the amount that may be payable. Recent advice has indicated a range of possible outcomes for this liability, including one scenario where no tax is payable. The estimates and assumptions made may change if new information becomes available. If information becomes available that requires the tax payable estimation to be updated then the appropriate adjustment will be made in the income statement in the period when the information becomes available.

Note 3. Segment Information

The group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a "management approach", being segment information as provided for internal reporting purposes for use by the Executive management team. This has resulted in the mineral exploration activities being disaggregated into two reportable segments, Jabal Sayid and Exploration Projects.

Jabal Sayid

Jabal Sayid is the copper-gold project for which a definitive feasibility study was completed in December 2009.

Exploration Projects

Exploration projects are the other projects within the group portfolio in which exploration and evaluation activities are being conducted.

Basis of measurement

Segment information is prepared on the basis of the measurement principles contained in Australian Accounting Standards on which financial reports are prepared.

Half-year 2009	Jabal Sayid	Exploration Projects	TOTAL
	\$	\$	\$
Total segment revenue	-	-	-
Total revenue	-	-	-
Segment result	-	(1,635,168)	(1,635,168)
Segment assets	210,301,024	25,067,371	235,368,395
 Half-year 2008			
	\$	\$	\$
Total segment revenue	-	-	-
Total revenue	-	-	-
Segment result	-	(263,289)	(263,289)
Segment assets	208,058,196	25,456,615	233,514,811

For personal use only

Note 3. Segment Information (continued)

The reconciliation of the segment result to the loss before income tax is as follows:

	Half Year	
	31 December 2009	31 December 2008
	\$	\$
Segment result	(1,635,168)	(263,289)
Revenue	502,079	782,791
Impairment of non-current assets	-	(84,962,586)
Accounting and audit	(38,680)	(91,515)
Compliance, listing and legal	(576,939)	(211,050)
Consulting fees	(320,230)	(484,465)
Depreciation and amortisation	(146,632)	(92,213)
Directors fees	(151,540)	(116,300)
Employee benefits expense	(2,325,917)	(2,034,101)
Share based payments	(229,559)	-
Financing costs	(322,776)	(1,538)
Rental costs	(465,691)	(328,827)
Travel expenses	(456,141)	(479,266)
Office expenses	(278,425)	(367,057)
Other expenses	(677,041)	(435,283)
Loss before income tax from continuing operations	<u>(7,122,660)</u>	<u>(89,084,699)</u>

Note 4. Equity Securities Issued

	Half Year 2009		Half Year 2008	
	Shares	\$	Shares	\$
Issues of Ordinary Shares During the Half-Year				
Shares issued on acquisition of subsidiary	-	-	224,236,513	22,333,986
Shares issued to subscribers	72,641,018	24,750,000	-	-
Conversion of options to ordinary shares	5,325,369	1,065,074	-	-
Calls on partly paid shares	-	738,080	-	557,175
Movement for the period	<u>77,966,387</u>	<u>26,553,154</u>	<u>224,236,513</u>	<u>22,891,161</u>

For personal use only

Note 5. Exploration and Evaluation Assets

	31 December 2009	30 June 2009
	\$	\$
Balance at beginning of the period	233,514,811	244,100,991
Effects of movements in exchange rates	(11,832,973)	(14,588,512)
Expenditure capitalised during the current period	13,686,557	19,166,413
Additional 50% of Jabal Sayid acquired on restructure	-	100,000,000
Adjustment to deferred tax liability	-	(29,951,798)
Impairment	-	(84,962,586)
Expenditure written off	-	(249,697)
	<u>235,368,395</u>	<u>233,514,811</u>

June 2008

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 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 together with an analysis of the market capitalisation of the Company and associated valuations of comparable copper projects which 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.

Note 6. Contingent Liabilities

There are no contingent liabilities or contingent assets as at this reporting date, 31 December 2009.

Note 7. 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 statements.

Name of entity	Class of shares	Country of Incorporation	Equity Holding	
			31 December 2009	30 June 2009
			%	%
DBC Finance Pty Ltd	Ordinary	Australia	100	100
ADV Medical Holdings Pty Ltd	Ordinary	Australia	100	100
Citadel Resource Group Equity Pty Ltd	Ordinary	Australia	100	-
Citadel Singapore Holdings Pte Ltd	Ordinary	Singapore	100	-
Citadel Singapore Projects Pte Ltd	Ordinary	Singapore	100	-
Vertex Group (Middle East) WLL	Ordinary	Bahrain	100	100
Bariq Mining Limited	Ordinary	Saudi Arabia	50	50

During the period Citadel Resource Group Equity Pty Ltd, Citadel Singapore Holdings Pte Ltd and Citadel Singapore Projects Pte Ltd were incorporated as 100% subsidiary companies of the parent company.

Note 8. 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 2009.

For personal use only

Declaration by Directors

The directors of the Company declare that:

1. The financial statements, comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
 - b. give true and fair view of the consolidated entity's financial position as at 31 December 2009 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, 15 February 2010

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 statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 controls 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 2009 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.

For personal use only

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

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 2009 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.

A handwritten signature in blue ink that reads 'BDO'.

BDO Audit (NSW-VIC) Pty Ltd

A handwritten signature in blue ink that reads 'Nicholas E Burne'.

Nicholas E Burne
Director

Melbourne, 15 February 2010