FORM 51-102F3

MATERIAL CHANGE REPORT

1. *Name and Address of Reporting Issuer:*

   Citadel Gold Mines Inc.
   150 Signet Drive
   Weston, Ontario M9L 1T9

2. *Date of Material Change:*

   July 31, 2006

3. *News Release:*

   A press release was issued on July 31, 2006 and disseminated across Canada by Canada NewsWire and filed on SEDAR.

4. *Summary of Material Change:*

   On the 31st day of July, 2006, Citadel Gold Mines Inc. announced that it has closed the transaction involving the sale by the Company to Dr. Bernard Sherman, a principal shareholder and related party of the Company, of the Company's general partnership interest in Citabar Limited Partnership and certain claims related to the Surluga Property in Wawa, Ontario and the assumption by Dr. Sherman of certain liabilities of Citadel, for aggregate cash consideration of $250,000 (the "Transaction").

   In conjunction with the Transaction, the Company also announced that it had completed a restructuring of its preferred share and debt structure.

5. *Full Description of Material Change:*

   A full description of the material change is set forth in the press release attached hereto.

6. *Reliance on subsection 7.1(2) or (3) of National Instrument 51-102:*

   Not applicable.

7. *Omitted Information:*

   None.

8. *Executive Officer:*

   For further information, please contact:

   John Sadowski, President
   Phone: (416) 675-8464

9. *Date of Report:*

   July 31, 2006

CITADEL GOLD MINES INC.
CLOSES SALE OF GENERAL PARTNERSHIP INTEREST IN CITABAR LIMITED PARTNERSHIP AND OF RESTRUCTURING

TORONTO, July 31, 2006/CNW/ - CITADEL GOLD MINES INC. (CGM.H: NEX Exchange). Further to its announcement of June 6, 2006, Citadel Gold Mines Inc. announced today that it has closed, effective as of July 1, 2006, the transaction involving the sale by the Company to Dr. Bernard Sherman, a principal shareholder and related party of the Company, of the Company's general partnership interest in Citabar Limited Partnership and certain claims related to the Surluga Property in Wawa, Ontario and the assumption by Dr. Sherman of certain liabilities of Citadel, for aggregate cash consideration of $250,000 (the "Transaction").

The Transaction will provide the Company with immediate funding in the amount of $250,000 and is expected to provide additional funding on a deferred basis in the amount of up to $270,000, in funds to be received by the Company as a reimbursement of funds previously paid by the Company and held by the Ontario Ministry of Northern Development and Mines Resources in connection with the 1989 closing of mining operations at the Surluga Property.

In conjunction with the Transaction, the Company also announced today that it has completed the restructuring of its preferred share and debt structure.

Subject to the Company's other obligations, management intends to utilize the proceeds from the completion of the Transaction to launch the Company on a new course by seeking out mineral projects, either at the exploration or development levels, primarily in Canada, but also looking for overseas opportunities. Management of the Company believes that completion of the Transaction represents a new beginning for Citadel, which has been relatively inactive for the last several years. It is expected that the Transaction and the debt restructuring will put the Company in a position to build a more active and visible company by taking advantages of opportunities for exploration and development that exist today in the minerals sector.

For further information: John Sadowski, President
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