



51-102F1 – ANNUAL MD&A

For the year ended
August 31, 2009





Annual Management Discussion and Analysis For the year ended August 31, 2009

*The following discussion and analysis of financial results of Diversified Industries Ltd. (the "Corporation" or "Diversified") on a consolidated basis, using the Purchase Method, with CFR Chemicals Inc. should be read in conjunction with the Corporation's audited annual financial statements and the accompanying notes for the periods ended August 31, 2009 and August 31, 2008 and is based on information available to **December 22, 2009**. Diversified purchased 40% of the common shares of CFR on October 26, 2007 and then purchased additional 10% on Nov 30, 2007. As of November 30, 2007, the 1st quarter, Diversified owned 50% of the outstanding common shares and has effective control of the operational assets and liabilities of CFR. The financial statements have been prepared in accordance with Generally Accepted Accounting Practices for a business combination using the Purchase Method for the presentation of the Balance Sheet, Statement of Operations and Statement of Cash flows. Additional information on the Corporation is available on SEDAR at www.Sedar.com.*

Forward Looking Information

Statements in this Management's Discussion and Analysis relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results implied by such forward-looking statements. Such factors include fluctuations in the oil and gas industries, both production rates and price and the ability of the Corporation to continue to grow sales of speciality blended chemicals and bulk commodity chemicals to the industrial and oil and gas industries. The on going ability of the Corporation to acquire and successfully commercialize other technologies, political and economic conditions in North America and other factors that are described in further detail in Diversified's continuous disclosure filings..

1. DESCRIPTION OF BUSINESS

Diversified Industries Ltd. is comprised of two business segments, the primary one being the development, marketing and sale of blended specialty chemicals and bulk commodity chemicals through its subsidiary CFR Chemicals Inc (CFR). In addition to the sale of its chemicals, CFR has started a new division within the company that is focused on chemical stimulation service of oil, gas and disposal wells throughout western Canada.

The company is also developing a strategic initiative to acquire oil and gas producing assets that will build a stronger revenue base through diversification from chemical sales. The intention is to utilize the production and stimulation technologies offered through CFR to enhance production of underperforming oil and gas assets. With significant volumes of oil and gas production left untapped by conventional production methods, the Company is excited by the potential that these opportunities represent and their ability to build shareholder value over the next several years.

The past year was very challenging with an 18.4% decline in revenue from the previous fiscal year ended August 2008. With drilling activity at barely over half that of 2008 levels together with weak natural gas prices there has been a marked decrease in demand for the commodity chemicals offered by CFR Chemicals. Lower prices of most petrochemicals and downward pressure on margins created a significant challenge for the company to generate positive cash flow. The result was a net annual loss of \$1,697,369 for the company.

While the company generates the majority of its revenues through the sale of commodity chemicals, there has been a continued focus on expanding the specialty and proprietary products that generate higher margins. Despite overall lower revenues for the current fiscal year end, Diversified's patented hydrogen sulphide scavenger continues to grow in popularity and the company has seen an increase in revenue of 13% with a 10% increase in kilograms sold compared to the same period a year ago. Based on the first two months of the first quarter of 2010, the company is on target to increase the revenue for this product again by an estimated 60% excluding a potential sale to Kuwait. This sale to Kuwait includes 123,000 liters of chemical and an injection equipment skid. Shipment will be made in Q2 of the current fiscal period and is expected to be followed by a long term supply contract.

Strategy: The Corporation's key strategy is to continue to expand the overall growth and profitability of CFR Chemicals Inc. through increased market share of both commodity and specialty chemicals to the oil and gas industry and the introduction of new, specialty and proprietary production and stimulation products and services. The Corporation has also placed an increased emphasis on selling its products and services to end users and on higher margin specialty and proprietary products.

In addition, the company has recognized significant potential in assisting E&P companies to gain higher production from their existing assets through the new stimulation division. This division has a number of very unique products that are proven to improve production through the control of mineral scale, aqueous phase blocking and the control of paraffin and asphaltene contaminants in producing wells. In addition, the company has developed high performance acidizing packages that are designed to clean up water disposal wells that are prone to plugging through the formation of scale.

During the past three months there have been several opportunities to assist customers in these areas and it is anticipated that this segment of the business will represent significant growth in revenue and gross margins over the next several years.

The Corporation has also invested heavily into expanding its sales and marketing team and has, in the past two quarters hired a number of individuals who are focused exclusively on sales and business development.

Knowledge and technology: The Company continues to invest in research and development and over the past year has designed several new products that are unique and have significant global potential in the oil and gas production market. Two of the products are similar to the company's patented hydrogen sulphide scavenger but are designed to be completely oil soluble. With much of the world's oil and gas production becoming contaminated with hydrogen sulphide it is anticipated that the demand for high quality oil soluble scavengers will continue to grow. The company is evaluating their patent eligibility and will make applications wherever possible.

The Corporation has also spent considerable time and effort in negotiating stronger supply contracts with key suppliers over the first three quarters, resulting in better pricing and the ability to generate higher overall margins. This is having a significant impact as it enables the company to compete in the higher volume business allowing expanded sales through growth in market share.

As mentioned in the business overview, the company is looking to identify and acquire strategic oil or natural gas production and to utilize the stimulation and production chemicals through CFR Chemicals to enhance production. There are several methodologies that the company is investigating through laboratory and site testing procedures that all form part of the necessary due diligence to ensure that any adoption or investment will be sound and will enhance shareholder value.

Stranded sour gas is one area of opportunity as the company is able to use its patented hydrogen sulphide scavenger to eliminate the contaminant and allow for the gas to be produced into existing sweet gas pipelines.

Infrastructure and expanded distribution outlets: CFR Chemicals' primary focus is the distribution and manufacturing of production and process chemicals, supplying customer specific blended product, proprietary chemicals and bulk commodity chemicals. At the CFR Kuusamo location there are approximately 7,500,000 litres of storage capacity spread over 50 tanks ranging in size from 20,000 to 320,000 litres. With service being a key component to gaining market share the company has strategically expanded bulk and packaged goods storage into eight new locations over the past year.

North-eastern British Columbia and southern Saskatchewan continue to be areas of expansion and it is anticipated that these two areas will be strong contributors to the company's growth for the next several years. Distribution points have been established in several key areas in British Columbia and the company continues to explore additional distribution outlets in Alberta and Saskatchewan.

2. OVERALL PERFORMANCE

Diversified is a venture issuer and in the past has not had significant revenues. In October 2007, the Corporation concluded the acquisition of 40% of CFR Chemicals Inc. for the issuance of 12,000,000 common shares and on November 30, 2007 exercised its option to purchase an additional 10% of CFR Chemicals Inc. for the sum of \$418,210. For the year ended August 31, 2009 operations were supported 60% by gross margin and 40% from financing initiatives. Operations over the 2008 fiscal year were supported 6% through financing initiatives and 94% through margin. The Company's consolidated loss for the year was \$1,697,369 compared to a loss of \$492,048 the same period ending August 31, 2008.

a. Revenue:

Revenue for the corporation decreased from \$20,632,994 to \$16,833,267 for the year ended August 31, 2009, a change of \$3,749,727. Revenue of DVS 6000 increased from \$428,600 to \$483,800 an increase of 13%, (kg of product sold increased by 10%) for the year ended August 31, 2009. This is due to educating customers about the benefits of DVS 6000 and an ongoing acceptance in the marketplace of this unique product.

The Corporation will continue to market itself mainly in Alberta with some international marketing efforts in the Middle East, the United States, South America and South East Asia markets. At this point, the majority of all sales and marketing will be carried out through CFR Chemicals Inc. The oil and gas industry exhibits a strong demand for all the family of products, however, there are barriers to entry that Diversified and its distribution partners are working to overcome. Research and testing and successful field trial efforts have shown promise for expanding product applications and are part of an effort to generate more data to assist in building the customer's willingness to implement use of products. Customer trials and testimonials are also helping in this area. The Corporation will continue to increase its marketing efforts, as opportunities in the tens of millions exist for H₂S mitigation and sulphur removal projects.

During the year, consolidated sales were to over 250 companies. The percentage of revenue for the top five was 34% (2008 - 47% and in 2007 – 94%). The current period consolidated revenue for Diversified is generated through CFR Chemicals operations, bulk and blended products, tank and product rental and specialty chemical blends and DVS6000.

b. Direct Costs:

Direct costs decreased from \$15,927,761 to \$13,587,822, a difference of \$2,339,939 for the year. Cost of Goods sold as a percent of revenue in 2009 was 80.7% (2008 - 77.2% and in 2007 51.0%) or 19.3% Gross Margin (2008 - 22.8% and in 2007 49.0%). The result is a lower level of sales with a lower margin for the Corporation. The increase in direct costs as a percentage of revenue in 2009 versus 2008 was due to several reasons; competitive pricing in the market place, cost increases from the increasing exchange rate for products purchased in United States dollars, customer pushback and the changed mix of products sold which included distribution of several commodity type chemicals. The corporation is working harder with key suppliers to ensure stable costing and supply of material. The 2007 direct costs were related to DVS6000 only whereas the 2008 and 2009 direct costs are a result of all CFR's products.

c. Operating Expenses:

The following table shows the percentage change for each area of operating expense for the years ended August 31, 2009 and August 31, 2008.

Years ended August 31, 2009 and 2008			
Operating Expenses	2009	2008	% Change
Personnel	2,214,823	2,047,135	8.2%
Rent, property and utilities	731,948	674,310	8.5%
Professional fees	280,766	408,131	-31.2%
Bank charges and interest	229,748	194,508	18.1%
Long-term debt interest	803,851	756,055	6.3%
General and administrative (Schedule)	413,752	328,627	25.9%
Research and testing	88,747	90,521	-2.0%
Investor relations	13,980	49,705	-71.9%
Marketing and promotion	127,919	126,229	1.3%
Amortization	494,634	318,571	55.3%
	5,400,168	4,993,793	8.1%

Operating expense in the year has increased by 8.1% over the past year. This is a result of the following; more salespeople hired to service an expanding market place, additional facilities at

the Kuusamo facility and accordingly increased asset depreciation, higher property taxes and interest expense. However professional fees have decreased due to the completion of bank and credit facility agreements and their legal costs.

The following table outlines the expenses for each of the five most recent quarters:

Quarterly Operating Expenses:	4th Quarter August 31, 2009	3 rd Quarter May 31, 2009	2 nd Quarter Feb. 28, 2009	1 st Quarter Nov. 30 2008	4th Quarter August 31, 2008
Personnel	\$ 622,852	\$ 556,111	\$ 530,274	\$ 529,587	\$ 472,735
Rent, property and utilities	\$ 213,077	\$ 183,024	\$ 155,845	\$ 149,011	\$ 195,727
Professional fees	\$ 80,492	\$ 54,287	\$ 89,177	\$ 54,465	\$ 104,723
Bank charges and interest	\$ 66,194	\$ 45,139	\$ 67,690	\$ 50,726	\$ 44,829
Long-term debt interest	\$ 213,029	\$ 202,986	\$ 200,117	\$ 187,719	\$ 176,572
General and administrative (Schedule)	\$ 229,941	\$ 63,186	\$ 59,419	\$ 51,152	\$ 111,551
Research and testing	\$ 11,397	\$ 19,532	\$ 18,563	\$ 39,255	\$ 43,732
Investor relations	\$ 1,500	\$ 1,500	\$ 6,055	\$ 4,925	\$ 9,888
Marketing and promotion	\$ 26,246	\$ 15,598	\$ 38,896	\$ 47,070	\$ 14,604
Amortization	\$ 165,279	\$ 117,655	\$ 114,639	\$ 114,214	\$ 133,923
	\$ 1,630,007	\$ 1,259,017	\$ 1,280,675	\$ 1,228,124	\$ 1,308,284

Personnel expenses for the current year include approximately 24-30 full-time employees. The fourth quarter of fiscal 2008 was lower than the current year as there was a planned hiring of additional salespeople.

The majority of research and testing expenditures over the past five quarters are associated with lab work and field trials on DVS 6000 and the Corporation's second H₂S scavenger under development. On an annual basis, research and testing costs for fiscal 2009 of \$88,747 were down slightly from 2008 (\$90,521).

Marketing and promotion expense has fluctuated significantly from quarter to quarter over the past five quarters. Those activities slowed down significantly during the spring. M&P expense in the fourth quarter was up slightly from the quarter prior due to preparations for the fall and winter season. Investor relations expense consists of communications and news dissemination costs, retainer or consulting fees to investor relations firms, and non-cash stock-based compensation expense.

The above personnel and investor relations costs include amortization of non-cash, stock-based compensation for the past five quarterly periods as follows:

Non-Cash, Stock-Based Compensation Expense:

Non-Cash, Stock-Based Compensation Expense

Quarter	Quarter End Date	Investor Relations Stock-based Compensation	Personnel Stock-based Compensation	Total Stock-based Compensation Expense
Q4-2009	August 31, 2009	-	24,216	24,216
Q3-2009	May 31, 2009	-	18,340	18,340
Q2-2009	February 28, 2009	-	18,933	18,933
Q1-2009	November 30, 2008	-	22,798	22,798
Q4-2008	August 31, 2008	-	22,799	22,799

A further breakdown of the Corporation's general and administrative expenses for the current and comparative period is found below. During the current period, general and administrative

costs have increased relative to the first three months of the prior fiscal year. This increase is attributable to higher professional costs, long-term interest and rent/property costs for the period.

Schedule of General and Administrative Costs for the year ended						
August 31, 2009 and 2008						
				2009	2008	
	Office and miscellaneous		\$	173,077	\$	186,963
	Telephone and internet			59,949		62,751
	Insurance			98,912		88,116
	Accreted Interest			107,998		23,849
	Regulatory			20,012		7,838
	Other Income			(46,195)		(40,890)
	Total general and administrative expense		\$	413,752	\$	328,627

Overall, there was a significant increase in general and administrative costs in the year (\$413,752) versus 2008 (\$328,627). One significant increase is the interest expense related to the convertible debenture.

d. Net Income and Earnings per Share:

The annual net loss and loss per share have both increased from the prior year. The current year's net loss of \$1,697,369 is an increase from that of the prior year net loss of \$492,048. This is a result of the changing economic conditions which created greater competition in the marketplace, reducing prices, and increased the costs to operate. Loss per share increased from \$0.0171 in 2008 to \$0.056 in 2009. There was also an increase in the basic and fully diluted weighted average number of shares outstanding.

e. Assets:

At August 31, 2009, total assets have increased to \$14,861,905 from \$14,564,181 at August 31, 2008.

- **Cash** decreased to \$1,032 from \$15,099 at year end. The decrease in cash is the result of intentionally borrowing less from the line of credit to reduce interest expense.
- **Receivables** have increased to \$2,546,930 from \$2,127,363 due to increased sales over the summer, relative to the summer before. Average customer days to pay are approximately 61 to 63.
- **Inventory** has decreased to \$2,343,856 from \$3,065,354 at year end due to the better managing of inventory levels and higher sales in late summer relative to the previous summer.
- **Prepaid expenses** increased to \$ 256,671 from \$57,182 at the prior year end. This increase is due to prepaid property taxes, liability insurance, prepaid inventory in transit and a performance bond for the Kuwaiti contract.
- **Property, Plant & Equipment** increased to \$6,454,315 from \$6,090,905 at year-end. This increase is due to tanks, equipment and vehicles. (see Property, Equipment and leasehold improvements in note 3 of the August 31, 2009 financial statements).

f. Liabilities:

The bank indebtedness of \$2,495,471 is an increase from \$1,716,932 at August 31, 2008. The credit facility from The Bank of Montreal is supported by Accounts Receivable and Inventory through an Assets Based Lending agreement. At August 31, 2009 the accounts payable and accrued liabilities have decreased to \$1,368,549 from \$1,512,994 at the end of fiscal 2008. These accounts payable and accrued liabilities have been incurred during the normal course of operations. The total current liabilities increased to \$4,184,829 from \$3,624,024 at August 31, 2008. The long term debt of \$8,896,810 is due to the property, plant and equipment of CFR. (see Long-term Debt in note 5 of the August 31, 2009 financial statements)

g. Industry and Economic Factors:

The economic and industry factors have changed since the last annual Management Discussion and Analysis (MD&A) was filed for the 2008 fiscal year end. The world economy has experienced unprecedented changes in credit, borrowing and currency fluctuations. The oil and gas industry in Alberta has experienced a slowdown in drilling and exploration activity. At this point the slowdown in drilling has not resulted in reduced sales for the Corporation. The Canadian currency, which started the year at approximately \$1.05 to the USD weakened to \$1.30 at one point and traded for most of the year in the \$1.18 to \$1.28 range ending the year at approximately \$1.11. The dollar strengthening at year end should result in a decrease in costs of raw products purchased from the United States in the new-year.

3. SELECTED ANNUAL INFORMATION

The following table sets forth certain financial information for the years ended August 31, 2009, 2008, and 2007.

(all figures are in Canadian dollars)	Year Ended August 31 2009 (12 months)	Year Ended August 31 2008 (12 months)	Year Ended August 31 2007 (12 months)
Revenue	\$ 16,833,267	\$ 20,632,994	\$ 242,788
Loss from operations	\$ 2,154,723	\$ 288,560	\$ 977,063
Net Loss	\$ 1,697,369	\$ 507,352	\$ 928,051
-Per common share-Basic and Diluted	\$ 0.056	\$ 0.019	\$ 0.065
Total Assets	\$ 15,703,692	\$ 14,564,181	\$ 1,217,650
Total Long Term Financial Liabilities	\$ 8,953,963	\$ 8,174,869	\$ 21,948
Dividends Declared	\$ -	\$ -	\$ -
Weighted Average Shares Outstanding	28,479,802	27,295,049	14,372,594
Shares Outstanding at Year End	36,120,249	29,587,743	17,049,900

This financial data is prepared in accordance with Canadian GAAP

The company has had significant sales and infrastructure growth over the past two years. Shares outstanding have increased due to the CFR acquisition and the raising of capital. Results for the past year are indicative of the downturn in the economy and in particular the oil and gas industry.

4. SUMMARY OF QUARTERLY RESULTS

SUMMARY OF QUARTERLY RESULTS

(all figures are in Canadian dollars)	4th 2009 31-Aug-2009	3rd 2009 31-May-2009	2nd 2009 28-Feb-2009	1st 2009 30-Nov-2008
Revenue	3,380,547	\$ 2,973,152	\$ 5,569,590	\$ 4,909,978
Profit (Loss) from operations	(1,153,800)	\$ (686,908)	\$ (67,063)	\$ (244,607)
Net Income (Loss)	(997,116)	\$ (348,105)	\$ (96,953)	\$ (255,194)
-Per common share-Basic	(0.034)	\$ (0.012)	\$ (0.003)	\$ (0.009)
Shares Outstanding	36,120,249	29,587,743	29,587,743	29,587,743

	4th 2008 31-Aug-2008	3rd 2008 31-May-2008	2nd 2008 29-Feb-2008	1st 2008 30-Nov-2007
Revenue	\$ 2,779,434	\$ 4,320,087	\$ 8,607,958	\$ 4,925,515
Profit (Loss) from operations	\$ (615,021)	\$ 11,690	\$ 442,612	\$ (154,329)
Net Income (Loss)	\$ (855,824)	\$ 48,934	\$ 449,999	\$ (135,157)
-Per common share-Basic	\$ (0.029)	\$ 0.002	\$ 0.015	\$ (0.005)
Shares Outstanding	29,587,743	29,519,816	29,519,816	29,519,816

4th Quarter of 2009, ended August 31, 2009

Revenue for the 4th quarter of 2009 increased 13% from the 3rd quarter, when compared to the 3rd and 4th quarters of 2008 where revenue decreased from \$4,320,087 to \$2,779,434 a change of 35%. The 4th quarter this year is also up from the comparative quarter last year by 21%. Decreased gross margin percentage in the 4th quarter, increased property taxes, increased number of salespeople, increased amortization due to year-end reconciliation and debenture interest expense has led to the larger loss this quarter and year-end versus last year.

3rd Quarter of 2009, ended May 31, 2009

Revenues for the 3rd quarter of 2009 decreased from those of the 1st and 2nd quarters of fiscal 2009. This is down from the comparative quarter from the prior year. Revenues going into the 4th quarter are anticipated to be higher than the comparable 4th quarter from last year due to the increased number of sales people. Decreased sales leading to decreased Gross Margin dollars, increased amortization expense and gain/loss on foreign exchange have been the significant differences in profitability this year versus last year.

2nd Quarter of 2009, ended February 28, 2009

Revenues for the 2nd quarter of 2009 increased from those of the 1st quarter of fiscal 2009. This is down from the comparative quarter from the prior year. Revenues going into the third quarter are anticipated to be higher than the comparable third quarter from last year. Decreased sales leading to decreased Gross Margin dollars, increased amortization expense and gain/loss on foreign exchange have been the significant differences in profitability this year versus last year.

1st Quarter of 2009, ended November 30, 2008

Revenues for the 1st quarter of 2009 increased from those of the 4th quarter of fiscal 2008. This is down slightly from the comparative quarter from the prior year. Revenues going into the second quarter are anticipated to be higher than first quarter. Gross Margin, amortization expense and gain/loss on foreign exchange have been the significant differences in profitability this year versus last year.

4th Quarter of 2008, ended August 31, 2008

Revenue for the 4th quarter of 2008 dropped dramatically, falling 36% from the prior quarter. This decline in revenue is attributable to the cyclical nature of the oil and gas industry. The loss from operations and net loss are due to several reasons: namely lower gross margins; increase in year-end amortization expense for fixed assets, income tax expense and minority interest adjustment. General and administrative expenses are also higher than in previous quarters, professional fees are up at year end due to audited year-end inventory counts and one time banking credit line changes.

3rd Quarter of 2008, ended May 31, 2008

Revenues for the 3rd quarter declined from the record high of the second quarter, due to the seasonal trend of the O&G industry going into spring breakup, April and May. The net income for the 3rd quarter has added to the year-to-date net income. Gross Margin for the quarter, 21.2%, was higher than the year-to-date, 19.95%, bringing up the overall average. More annual maintenance activities occurred in the quarter with the slow down of the industry. The 4th tank farm was commissioned in March and incurred one-time expenses.

2ND Quarter of 2008, ended February 29, 2008

Revenues for the 2nd quarter rose again over the first quarter to a new record. The net income for the second quarter has produced a year-to-date net income from the year-to-date loss last quarter. The tank farm expansion at Kuusamo added capacity and came into operations in late October 2007. Another tank expansion further increased capacity in January 2008.

1st Quarter of 2008, ended November 30, 2007

Revenues for the 1st quarter of 2008 rose considerably versus those of the 4th quarter of fiscal 2007 and were above the quarterly average of \$60,697 for the four most recent quarters as at that date. The loss from operations and net loss were the lowest in the prior two years due to higher revenue which contributed more gross margin than previously. The impact of non-cash stock based compensation expense remained constant.

4th Quarter of 2007, ended August 31, 2007

Revenue for the 4th quarter of 2007 dropped dramatically, falling 26% from the prior quarter. This decline in revenue is attributable to the acquisition of CFR and the outsourcing of sales, distribution, blending and marketing to CFR effective May 1, 2007. The loss from operations and net loss have both decreased significantly versus prior quarters, mainly due to reductions in personnel expense and marketing and promotional expense. General and administrative expenses were also lower, however, they were still high in comparison to quarterly averages due to the acquisition of CFR and a higher than normal level of professional fee expenses. The net loss for the quarter is the lowest net loss over the past two years. This ranking is somewhat artificial given the recording of a recovery of aged payables totaling \$53,714 which had a significant impact, lowering the loss for the quarter.

5. LIQUIDITY & SOLVENCY

As at August 31, 2009, the Corporation had \$1,032 in cash and cash equivalents (based on the Bank of Canada US\$ noon exchange rate). Liquid cash is kept at a minimum to reduce the credit line and the resulting amount of interest expense.

The average monthly net loss for the year has been \$141,447 (this figure includes non-cash items such as depreciation of property, plant and equipment, and non-cash, stock-based compensation expense of approximately \$7,024 per month; as well, the net loss figures also include any extraordinary items). The average monthly net loss over the past two year period is \$91,926 (however this figure includes non-cash items such as depreciation of capital assets, and non-cash, stock-based compensation expense of approximately \$6,685 per month; as well, net loss figures also include any extraordinary items). While the acquisition of 50% of CFR did reduce the cash in the Corporations reserve in 2007, nearly all of the overhead of the Corporation has been transferred to CFR Chemicals Inc. or has been eliminated due to duplication.

The Corporation is able to generate significant revenues from product sales. The solvency of the Corporation is directly related to CFR's credit line with the Bank of Montreal. As of August 31, 2009 the \$8,000,000 credit line had \$2,495,471 funds advanced. Availability to the credit line is created by the factoring of Accounts Receivable and Inventory.

6. CAPITAL RESOURCES

Currently the Corporation has committed an additional \$100,000 in capital expenditures. The Corporation, extended the convertible debenture financing from 2006 by two years, and will be responsible for the payment of 7% interest per annum on principal of \$673,773 in the form of cash or through the issuance of common shares. In 2009 a private placement closed that generated \$391,950 cash and issued 6,532,506 in shares. In the near term the Corporation will be financed through sales revenues and short term debt. It is anticipated that the Corporation will finance fixed assets through long-term debt and may consider equity financing for other long term plans, this to be approved by the Board of Directors.

7. OFF BALANCE SHEET ARRANGEMENTS

The Corporation has several off balance sheet arrangements. This includes several vehicle leases for the Sales department and office equipment leases (photocopier, laptop, computers, server). This results in an approximate \$8,500/month off balance sheet lease commitment.

8. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties for the period ended August 31, 2009 and 2008 are stated below. These amounts include wages for four different officers, one of whom is also a director.

Related party transactions

For the years ended August 31, 2009 and August 31, 2008	<u>2009</u>	<u>2008</u>
Paid to an officer or director for:		
Wages and benefits for one officer/director and three directors	\$ 263,600	\$ 384,500

9. Internal Control Over Financial Reporting

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for design of internal control over financial reporting or causing it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principals. The consolidation with CFR Chemicals Inc. has allowed the Corporation more depth and experience in the management of all accounting functions. Effective disclosure controls and procedures are achieved, despite the CFR material weakness, because of the CFO's direct involvement in the disclosure controls and procedures process.

10. OUTSTANDING SECURITY DATA

Description of Share Capital

Authorized Capital:

- Unlimited common shares, without par value

Issued and Outstanding:

	Number	Amount
▪ Common shares	36,120,249	\$4,661,127

For further detail see Note 6(b) of the annual financial statements for years ended August 31, 2009 and 2008.

Summary of options, warrants, and convertible securities outstanding at the end of the reporting period:

Options Outstanding as at August 31, 2009:

Date of Grant	Optionee Office	Expiry Date	Number of Options	Exercise Price/Share
26-Feb-2008	Directors & Officers	26-Feb-2013	100,000	0.10
4-Dec-2007	Consultant	4-Dec-2012	200,000	0.10
10-Oct-2007	Directors & Officers	10-Oct-2012	400,000	0.10
10-Oct-2007	Consultant	10-Oct-2012	700,000	0.10
21-Mar-2007	Directors & Officers	12-Mar-2012	200,000	0.10
21-Apr-2006	Consultant	21-Apr-2011	50,000	0.10
2-Mar-2006	Directors & Officers	2-Mar-2011	120,000	0.10
17-Feb-2005	Directors & Officers	17-Feb-2010	60,000	0.10
1-Dec-2004	Consultant	1-Dec-2009	100,000	0.10
Total options outstanding & weighted average exercise price			1,930,000	0.10

All options were amended in April 2009 to \$0.10. There were no options granted in the quarter, 100,000 options expired in the quarter at \$0.10 and no options were cancelled.

Share Purchase Warrants Outstanding as at August 31, 2009:

	Number of	Exercise
--	-----------	----------

Date of Grant	Expiry Date	Warrants	Price/Share
14-Jul-09	14-Jul-11	3,266,253	0.10
Total share purchase warrants outstanding & weighted average price:		3,266,253	\$ 0.10

There were 1,504,917 warrants that expired on July 19, 2009 from the private placement on July 19, 2007. There were 3,266,253 warrants issued with the July 14, 2009 private placement.

Convertible Debentures Outstanding as at August 31, 2009:

Date of Grant	Due Date	Value of Debentures	Number of Common Shares on Conversion	Exercise Price/Share
9-Jun-09	9-Jun -09	\$ 673,773	7,486,366	\$ 0.09

11. FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The financial instruments of the Corporation consist of Canadian and United States dollars, a convertible debenture, accounts receivable, accounts payable and accrued liabilities, a corporate credit card, a credit line consisting of a Canadian and American dollar short-term loans and long-term debt financing. The Corporation does not currently make use of any other financial instruments.

Convertible Debenture

In the fourth quarter of fiscal 2009, the Corporation extended the convertible debenture originally issued in June 2006 by two years. The debenture is held by a small group of three placees, one of which is a company controlled by an insider and director of the Corporation, the value includes the unpaid capitalized interest from the first three years. The debentures are convertible into common shares at \$0.09 of principal outstanding. The debenture will yield 7% interest payable annually, but which is also deferrable until the end of the full two year term of the debenture, at which time all principal and interest will become payable either in cash or in common shares of the Corporation.

Accounts Receivable

With the exception of the Kuwaiti contract the Corporation has dealt only with North American corporations in terms of sales and thus has not been exposed to the risk of dealing with overseas entities. In addition, the Corporation deals with a small number of clients and receivables are relatively small at this point – thus credit risk from accounts receivable is quite limited. The Corporation is in very regular contact with clients regarding any outstanding receivables that go beyond both 30 and 60 days past due. This has proven to be very effective in ensuring that all accounts receivable are collected on time. Management will look at putting further internal control measures in place to mitigate this risk as sales revenue increases if necessary. As the Corporation or its subsidiary, CFR Chemicals Inc. begin to generate sales internationally, it is anticipated that either an irrevocable letter of credit or export accounts receivable insurance will be secured prior to a sale being concluded.

Foreign Currency Risk

The Corporation is exposed to currency risks as a result of sales and purchases in U.S. currency. Sales to the United States are less than US\$50,000 for the period. Purchases of inventory in U.S. currency have been approximately \$1,250,000 for the period. Payments in U.S. currency during the period were \$1,350,000. Due to the large value of transactions to date, the Corporation is exposed

to significant foreign currency risk. Management for the Corporation has closely followed \$US/\$CDN exchange rates on a daily basis. This has allowed the purchase of U.S. currency at optimum rates to mitigate currency exchange loss due to the conversion when purchasing inventory and valuing it. For the quarter the Corporation recognized a currency gain of \$157,878. For the year the Corporation recognized a currency gain of \$135,983 on U.S. dollar purchases of \$10,723,000 and U.S. dollar payments of \$10,078,000.

Risk Factors

Need For Additional Financing – Diversified may require additional financing in order to support operations or make further investments in its various technologies. There can be no assurance that additional financing will be available to the Corporation on acceptable terms, or at all. Such financing, if available, might have the effect of diluting the holdings of existing shareholders.

Volatile Commodity Markets – As the majority of Diversified's revenues are generated through the chemical sales of CFR Chemicals Inc. there are certain risks due to volatile commodity prices. The corporation has been building stronger relationships with key suppliers and has developed a strategy to minimize risks associated with price fluctuations. The manufacturing costs and thus the marketability of Diversified's DVS 6000 could be affected directly or indirectly by significant changes in raw chemical prices. If energy prices as a whole were to decrease, there is risk that the overall business would suffer due to decreased activity in E&P markets.

Government Regulations / Policy – The Corporation may be subject to and adversely affected from time to time by changes in regulation and policy in the countries it is or plans to be operating in and such factors may create delays in project procurement and implementation that may result in the need for additional funding.

International Business – The Corporation undertakes business internationally. Securing of such business introduces currency risks, credit risks, political risks and other risks inherent to conducting business internationally. There can be no assurance that steps taken by management to address these risks will eliminate all adverse affects and, accordingly the Corporation may suffer losses.

Management of Growth and Key Personnel – Diversified's anticipated growth and expansion into new applications for DVS 6000 (as well as other technologies) will require additional management expertise and will place increased demands on Diversified's resources and management with respect to recruiting, training, budgeting, scheduling and technical skills. These demands will require the addition of new management and technical personnel and the development of additional expertise by existing personnel. A shortage of, or failure to retain, such personnel or develop or acquire the expertise could adversely affect prospects for Diversified's success.

Patents – Diversified's success with its scavenger business will depend, in part, on its ability to maintain patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or having third parties circumvent the Corporation's rights. Diversified holds patents in Canada, the United States and other countries. Furthermore, there can be no assurance that others will not independently develop similar products, which

may duplicate Diversified's technology or products or, patents or design around those patented products developed by Diversified.

Conflicts of Interest - Directors and officers of the Issuer may serve as directors of, or have shareholdings in, other reporting companies. To the extent that such other companies may participate in ventures in which the Issuer may participate, the directors or officers of the Issuer may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The laws of Canada, applicable to the Issuer, provide that the directors of the Issuer must act honestly, in good faith and in the best interests of the Issuer in resolving any conflicts that may arise, and all directors of the Issuer are aware of these fiduciary responsibilities. In determining whether or not the Issuer will participate in a particular venture, the directors will primarily consider the degree of risk to which the Issuer may be exposed, its financial position at that time and, depending on the magnitude of the venture and the absence of any disinterested directors, whether or not to subject any ventures in question to the shareholders of the Issuer for their approval. There are currently no such conflicts of interest as described above.

Reliance on Third Parties and Future Collaboration - Diversified has, and will continue, as it moves forward, to enter into, various arrangements with collaborators, licensors, licensees and others for the research, development, testing, manufacturing and marketing of its products and services. There can be no assurance that Diversified will be able to establish such collaborations on favorable terms, if at all, or that its current or future collaborative arrangements will be successful.

Product Liability and Uninsured Risks – The sale of products and services may expose Diversified to potential liability resulting from such use. Although liability insurance is currently maintained, the obligation to pay a claim in excess of insurance could have a material adverse effect on the business, financial condition and future prospects of Diversified.

Environmental Matters – As the Corporation supplies oilfield products and services there is the certainty that it will be subject to federal, provincial and local laws and regulations regarding the environment. Although management believes its safety procedures are appropriate, the risk of offence or liability cannot be completely eliminated. Moreover, there can be no assurance that Diversified will not be required to incur significant costs to comply with laws and regulations in the future.

12. SUBSEQUENT EVENTS

There were no subsequent events.