



FINANCIAL STATEMENTS

For the Nine Months Ending
May 31, 2008

NOTICE OF AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The following interim financial statements for Diversified Industries Ltd. have been prepared by and are the responsibility of the Corporation's management.

The independent auditor for the Corporation has not performed a review of these interim financial statements, nor has any independent auditor been requested or engaged to perform a review of these interim financial statements.



DIVERSIFIED INDUSTRIES LTD.

Balance Sheets

(unaudited)

	May 31 2008 (unaudited)	August 31, 2007 (unaudited)
Assets		
Current assets		
Cash and cash equivalents	\$ 13,878	\$ 898,240
Accounts receivable	2,659,058	110,442
Investments	-	157,500
Prepaid expenses	45,838	11,616
Inventory (note 3)	2,366,415	-
	<u>5,085,190</u>	<u>1,177,798</u>
Goodwill	3,208,278	-
Property, equipment and leasehold improvements(note 4)	5,952,483	39,852
Future income taxes recoverable	26,000	-
	<u>\$ 14,271,950</u>	<u>\$ 1,217,650</u>
Liabilities and Shareholder's Equity		
Current Liabilities		
Bank indebtedness	\$ 2,157,984	\$ -
Accounts payable and accrued liabilities	1,253,900	91,854
Short term loan	-	250,000
Interest payable on debenture - current portion(note 5(c))	114,988	107,511
	<u>3,526,872</u>	<u>449,365</u>
Long-term liabilities		
Long-term bank debt	2,400,301	-
Due to shareholders	4,746,639	-
Interest payable on debenture(note 5(c))	17,276	21,948
	<u>7,164,216</u>	<u>21,948</u>
	<u>10,691,088</u>	<u>471,313</u>
Shareholder's equity		
Share capital (note 5)	4,248,799	1,684,328
Contributed surplus (note 6)	657,813	604,462
Other paid in capital (note 5(c))	437,664	587,664
Deficit (note 5(b))	(1,763,414)	(2,130,117)
	<u>3,580,862</u>	<u>746,337</u>
Continuing operation (note 1)		
Commitments (note 8)		
	<u>\$ 14,271,950</u>	<u>\$ 1,217,650</u>

See accompanying notes to unaudited financial statements.

On Behalf of the Board:

"Darren J. Lamothe" Director

"Reg M. Allen" Director

DIVERSIFIED INDUSTRIES LTD.

Statements of Operations and Deficit (Unaudited)

Three months and nine months ended May 31, 2008 and May 31, 2007

	Three Months Ended		Nine Months Ended	
	2008	2007	2008	2007
Revenue	\$ 4,320,087	\$ 34,498	\$ 17,849,711	\$ 217,279
Direct Costs	(3,403,471)	(19,813)	(14,287,807)	(121,650)
	916,616	14,685	3,561,904	95,629
Expenses				
Personnel	456,647	114,356	1,558,907	393,735
Rent, property and utilities	169,823	21,594	507,919	73,886
Professional fees	26,774	63,729	303,408	135,785
Bank charges and interest	26,940	2,104	149,679	2,782
Long-term debt interest	198,861	-	579,483	-
Applied overhead	(124,157)	-	(430,545)	-
General and administrative (Schedule)	69,339	39,734	217,077	94,114
Research and testing	332	28,630	32,947	73,926
Investor relations	5,756	14,479	39,817	42,057
Marketing and promotion	10,785	27,522	111,625	49,468
Amortization	63,826	3,260	184,648	9,781
	904,926	315,409	3,254,964	875,533
Income before the following	11,690	(300,724)	306,940	(779,904)
Sale of Assets - Gain/(Loss)	-	-	(3,270)	-
Foreign exchange - Gain/(Loss)	37,244	62	67,073	58
Income for the period	48,934	(300,662)	370,744	(779,847)
Deficit, beginning of period	(1,808,308)	(1,681,251)	(2,130,117)	(1,202,066)
Deficit, end of period	\$ (1,759,373)	\$ (1,981,913)	\$ (1,759,373)	\$ (1,981,913)
Income per share:				
Basic and fully diluted	0.0017	(0.0215)	0.0126	(0.0556)
Weighted average number of shares outstanding:				
Basic and fully diluted	29,519,816	14,015,066	29,519,816	14,015,066

See accompanying notes to unaudited financial statements.

DIVERSIFIED INDUSTRIES LTD.

Consolidated Statements of Cash Flows (Unaudited)

Three months and nine months ended May 31, 2008 and May 31, 2007

	Three Months Ended		Nine Months Ended	
	2008	2007	2008	2007
Cash provided by (used in):				
Operations:				
Income (Loss) for the period	\$ 48,934	\$ (300,662)	\$ 370,744	\$ (779,847)
Items not involving Cash:				
Stock-based compensation	25,123	10,760	53,352	35,177
Accreted interest	5,513	5,202	17,276	15,436
Amortization	63,826	3,260	184,648	9,781
Changes in non-cash operating working capital:				
Accounts receivable	3,788,336	(40,195)	(1,212,260)	(82,682)
Prepaid expenses	8,112	(9,353)	72,634	(15,991)
Inventory	4,711	73,890	(805,820)	114,514
Accounts payable and accrued liabilities	(1,253,603)	(75,116)	(623,304)	(102,795)
	2,690,953	(332,214)	(1,942,732)	(806,406)
Investing:				
Additions to equipment and leasehold improvements	(191,241)	3,260	(816,700)	9,781
Recapture of Accum. Dep from sale of assets		(3,983)		(11,768)
Investments		-	(2,818,210)	(157,500)
	(191,241)	(723)	(3,634,909)	(159,488)
Financing:				
Issue of share capital	-	-	2,564,471	-
Issuance of convertible debenture	-	402,963	(150,000)	402,963
Issue costs	-	-	-	-
Short term debt		250,000		250,000
Short term bank debt	(2,495,659)	-	2,143,515	-
Long term bank debt	(63,233)	-	2,400,301	-
Shareholders loan		-	(2,590,000)	-
	(2,558,892)	652,963	4,368,287	652,963
Increase (Decrease) in cash and cash equivalents	(59,181)	320,026	(1,209,354)	(312,931)
Cash and cash equivalents, beginning of period	73,059	235,920	1,223,232	868,877
Cash and cash equivalents, end of period	\$ 13,878	\$ 555,947	\$ 13,878	\$ 555,947

See accompanying notes to unaudited financial statements.

DIVERSIFIED INDUSTRIES LTD.

Notes to Financial Statements

Nine months ended May 31, 2008

Diversified Industries Ltd. (the "Company") is incorporated under the laws of British Columbia and its principal business activity is the development and marketing of unique products and technologies for industrial and commercial markets.

On October 26, 2007, as previously announced, Diversified acquired a 40% ownership in CFR Chemicals Inc. Diversified further announced on November 30, 2007 it had acquired an additional 10%. These statements are prepared on a consolidated basis, using the purchase method, for Diversified Industries Ltd recognizing a 50% ownership in CFR Chemicals Inc.

1. Continuing operations:

These financial statements have been prepared on the "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to continue business.

The Company has incurred significant losses since inception. The application of the going concern concept is dependent on the Company's ability to generate positive cash flow from operations and to obtain additional financing.

Management is of the opinion that sufficient working capital will be obtained from operations and/or external financing to meet the Company's liabilities and commitments as they become payable.

2. Significant accounting policies:

These interim financial statements should be read in conjunction with the financial statements for the Company's most recently completed fiscal year ended August 31, 2007. These interim financial statements do not include all the disclosures required in the annual financial statements. Rather, these statements have been prepared in accordance with the recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles, using the same accounting policies as were used for the financial statements at the year ended August 31, 2007. The accounting policies for CFR may differ from Diversified in two areas. One, is the fixed asset section, CFR owns property, plant and equipment that depreciates at differing rates than the equipment that Diversified owns. The CFR rates are as follows:

Buildings	-	25 year straight line
Leasehold improvements	-	5 year straight line
Computer equipment	-	10 year straight line
Tanks and equipment	-	10 year straight line
Furniture and fixtures	-	10 year straight line
Other machinery and equipment	-	10 year straight line
Vehicles	-	7 year straight line

One-half of the normal rates are applied in the year of acquisition.

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Notes to Financial Statements

Nine months ended May 31, 2008

A second difference is that CFR owns inventory that is cost at landed value. This landed value includes cost to purchase, freight, brokerage fees, duties, handling labor and applied overhead. Diversified no longer owns inventory.

3. Inventory:

	May 31, 2008	February 29, 2008	November 30, 2007	August 31, 2007
Finished goods	\$ 83,709	\$ 107,395	\$ 86,520	\$ -
Raw materials	2,282,706	2,263,615	2,511,631	-
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 2,366,415	\$ 2,371,010	\$ 2,598,151	\$ -

As of May 1, 2007 Diversified outsourced the blending, sales and marketing of its products. As of May 31, 2008 on a consolidated basis with CFR Chemicals Inc. all inventory is held through CFR Chemicals Inc.

DIVERSIFIED INDUSTRIES LTD.

Notes to Financial Statements

Nine months ended May 31, 2008

4. Equipment and leasehold improvements:

As of May 31, 2008 on a consolidated basis with CFR Chemicals Inc., the property, equipment and leasehold improvements of CFR Chemicals Inc. are recorded in the financial statements of Diversified. These assets are located at the CFR locations in Alberta and include office equipment, computer hardware, computer software, and storage tank farms.

May 31, 2008	Cost	Accumulated amortization	Netbook Value
Leasehold improvements	\$ 10,612	\$ 4,407	\$ 6,205
Furniture and equipment	60,537	10,689	49,848
Computer equipment	133,642	44,967	88,675
Buildings	1,400,000	68,422	1,331,578
Automotive	54,702	41,394	13,308
Shop equipment & tanks	3,806,353	543,484	3,262,869
Land	1,200,000	-	1,200,000
	<u>\$ 6,665,845</u>	<u>\$ 713,363</u>	<u>\$ 5,952,483</u>

August 31, 2007	Cost	Accumulated amortization	Netbook Value
Leasehold improvements	\$ 7,211	\$ 3,505	\$ 3,706
Furniture and equipment	56,032	33,867	22,165
Computer equipment	51,049	37,068	13,981
Buildings	-	-	-
Automotive	-	-	-
Shop equipment & tanks	-	-	-
Land	-	-	-
	<u>\$ 114,292</u>	<u>\$ 74,440</u>	<u>\$ 39,852</u>

DIVERSIFIED INDUSTRIES LTD.

Notes to Financial Statements

Nine months ended May 31, 2008

5. Share capital:

The share capital of the Company is as follows:

- (a) Authorized:
Unlimited common shares, without par value
- (b) Issued:

	Number of shares	Amount
August 31, 2005	12,015,066	\$ 19,190,096
Reduction of stated share capital	-	(18,919,449)
Issued for cash	2,000,000	600,000
	14,015,066	870,647
Less issue costs	-	(8,647)
August 31, 2006	14,015,066	862,000
Issued for cash	3,009,834	902,950
Issued for corporate finance fee	25,000	7,500
	17,049,900	1,772,450
Less issue costs	-	(88,122)
August 31, 2007	17,049,900	1,684,328
Issued on conversion of debenture & accrued interest	469,916	164,471
Issued for shares	12,000,000	2,400,000
	-	-
May 31, 2008	29,519,816	\$ 4,248,799

During 2006, the Company closed two private placement financings. Proceeds of \$600,000 were received for the issuance of 2,000,000 common shares and 2,000,000 warrants on June 9, 2006. Proceeds of \$700,000 were received for a convertible debenture and the related issuance of 490,000 warrants on June 9, 2006 (see note 5(c)).

On February 8, 2006, the Company's shareholders approved that the stated capital of the Company be reduced by \$18,919,449, being an elimination of the accumulated deficit of the Company as at August 31, 2005.

- (c) Convertible debenture:

On June 9, 2006 the Company issued a \$700,000 convertible debenture. The debenture is convertible into 2,000,000 common shares at the option of the holder or the Company at a fixed conversion price of \$0.35 per common share. The debenture matures on June 9, 2009 and bears interest at 7% per annum payable annually. The purchaser of the debenture also received 490,000 warrants for no additional consideration. The warrants, which are

DIVERSIFIED INDUSTRIES LTD.

Notes to Financial Statements

Nine months ended May 31, 2008

5. Share capital (continued):

exercisable until June 9, 2008, entitle the holder to purchase 490,000 common shares at a price of \$0.40 per share.

As the Company is able to settle the principal portion of the debenture by issuing a fixed number of common shares, the debenture is accounted for as a compound financial instrument with both a liability and an equity component. On issuance of the debenture, the liability component was calculated as the present value of the future interest payments discounted at the rate of 20% per annum, the Company's cost of capital. The remainder of the proceeds reflects the equity component (the conversion feature and the warrants) and was accounted for as other paid in capital, a component of shareholders' equity.

On October 19, 2007 one debenture holder exercised their conversion privilege, converting their principal of \$150,000 and accumulated interest of \$14,471 into common shares at a conversion price of \$0.35 per common share, resulting in the issuance of 469,916 common shares from treasury. In addition, the conversion reduced the debenture liability by the accumulated interest, and resulted in changes to share capital and other paid in capital.

The Company has accounted for the liability and equity components as follows:

	Liability component	Equity component
Issuance of convertible debentures	\$ 103,189	596,811
Less issue costs	-	(9,147)
	103,189	587,664
Accretion of liability	4,693	
Balance as a August 31, 2006	107,882	
Accretion of liability	21,577	
Balance as a August 31, 2007	129,459	
Less conversion to Common Shares	14,471	150,000
Accretion of liability	6,310	
Balance as a November 30, 2007	121,298	437,664
Accretion of liability	5,453	
Balance as a February 29, 2008	\$ 126,751	
Accretion of liability	5,513	
Balance as a May 31, 2008	\$ 132,264	
Current portion	114,988	
Long-term portion	17,276	
Balance as a May 31, 2008	132,264	

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Notes to Financial Statements

Nine months ended May 31, 2008

5. Share capital (continued):

(d) Warrants:

The Company has issued no warrants in the nine months ended May 31, 2008. During fiscal 2006, the Company issued 2,490,000 warrants in two separate transactions. On June 9, 2006 in conjunction with the issuance of a convertible debenture, the Company issued 490,000 warrants with an exercise price of \$0.40 per share exercisable up until June 9, 2008. The Company issued 2,000,000 warrants with an exercise price of \$0.35 per share exercisable up until June 9, 2007, in conjunction with the issuance of 2,000,000 common shares on June 9, 2006.

On April 14, 2008 the Company received approval from the exchange to extend the expiry date of Warrants that were issued on July 19, 2007 with an original expiry date of July 19, 2008 to a new expiry date of July 19, 2009. There were 1,504,917 warrants extended.

Warrants outstanding:

	Number of shares	Weighted average exercise price
Balance, August 31, 2006	5,530,078	0.52
Granted	1,738,146	0.43
Expired	(3,040,078)	0.88
Balance, August 31, 2007	4,228,146	0.44
Balance, May 31, 2008	4,228,146	0.4364

During fiscal 2007:

- 1,501,366 warrants priced at \$0.75 expired on January 27, 2007;
 - 1,538,712 warrants priced at \$1.00 expired on April 14, 2007;
- a total of 3,040,078 warrants expired.

(e) Stock options:

Options to purchase common shares of the Company may be granted by the Board of Directors to employees, directors and consultants. Generally, options expire five years from the date granted. A summary of the status of the options outstanding as of May 31, 2008 is presented below:

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Notes to Financial Statements

Nine months ended May 31, 2008

5. Share capital (continued):

	Number of shares	Weighted average exercise price
Balance, August 31, 2006	1,740,000	0.39
Granted	250,000	0.40
Expired	(170,000)	0.40
Cancelled	(170,000)	0.40
Balance, August 31, 2007	1,650,000	0.39
Granted	1,100,000	0.40
Expired	-	0.40
Cancelled	(280,000)	0.40
Balance, November 30, 2007	2,470,000	0.39
Granted	300,000	0.40
Expired	(240,000)	0.40
Cancelled	-	0.40
Balance, February 29, 2008	2,530,000	0.39
Granted	-	0.40
Expired	(125,000)	0.30
Cancelled	-	0.40
Balance, May 31, 2008	2,405,000	0.40

During the nine months ended May 31, 2008, the Company granted 1,400,000 options with a weighted average fair value of \$0.093 per option, while 280,000 options were cancelled due to employee turnover, another 125,000 expired.

During fiscal 2007 the Company granted 250,000 options with a weighted average fair value of approximately \$0.099 per option, while 170,000 options were cancelled due to employee and contractor turnover, and another 170,000 expired.

The weighted average exercise price at August 31, 2006 reflects the fact that the Company amended the exercise price on 1,255,000 outstanding stock options to \$0.40 per common share as approved at the Company's Annual General Meeting on February 8, 2006.

The following table summarizes information about the total number of stock options outstanding at May 31, 2007:

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Notes to Financial Statements

Nine months ended May 31, 2008

5. Share capital (continued):

Exercise price	Options exercisable		Options exercisable	
	Total number outstanding	Weighted average remaining contractual life (years)	Total number exercisable	Weighted average remaining contractual life (years)
0.40	2,405,000	3.367	1,333,133	2.887
	2,405,000	3.367	1,333,133	2.887

The fair value of the compensation costs of stock options issued to both employees and non-employees was calculated using the Black-Scholes option pricing model resulting in an additional charge to personnel and investor relations expense with a corresponding increase in contributed surplus.

During the nine months ended May 31, 2008, \$53,351 in stock-based compensation expense was recorded.

During 2007, \$52,133 (2006- \$172,414) in stock-based compensation expense was recorded relating to stock options granted or amended and outstanding. Costs reflected in these amounts were calculated using the Black-Scholes option pricing model assuming a risk-free interest rate range of 2.5% to 4.0% (2006 - 2.4% to 4.0%), a dividend yield of 0% (2006 - 0%), an expected volatility range of 83% to 113% (2006 - 73% to 113%), and expected lives of the stock options ranging from two to five years (2006 - two to five years) from the date of grant.

(f) Special options:

On March 8, 2007, the Company issued one million share options to No. 321 Cathedral Ventures Ltd. exercisable at \$0.30 per common share, expiring February 28, 2010, as partial consideration for the entering into of an Option Agreement for the purchase of 50% of CFR Chemicals Inc., exercisable on February 28, 2010.

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Notes to Financial Statements

Nine months ended May 31, 2008

6. Contributed surplus:

	Amount
Balance, August 31, 2005	\$ 379,915
Stock-based compensation expense	172,414
Balance, August 31, 2006	552,329
Stock-based compensation expense	52,133
Balance, August 31, 2007	604,462
Stock-based compensation expense	53,351
Balance, February 29, 2008	\$ 657,813

7. Financial instruments:

At May 31, 2008, the fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates carrying values because of the short-term nature of these instruments. The carrying value of the interest payable on debenture approximates the fair value as the future cash flow stream has been discounted at an interest rate that reflects market conditions. CFR Chemicals has both a credit line and long-term debt financing with the Bank of Montreal. The credit line is based on an 'Asset Based Lending' model set at a \$5 million limit that uses factored Accounts Receivable and Inventory as the security for the funds available to be advanced. The availability of the line of credit is recalculated on a weekly basis. The long-term debt financing is for the land and buildings located at Kuusamo, AB. As well, CFR has a loan from a shareholder for equipment and storage tanks.

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Notes to Financial Statements

Nine months ended May 31, 2008

8. Commitments:

The Company has not entered into any agreements during the current period.

The Company has entered into the following agreements in prior periods:

- (a) On December 4, 2007 the Company entered into a six-month minimum consulting agreement with a month to month option to follow with Big Picture GeoScience Inc. of Calgary, AB. The monthly consulting fee is \$3,500. The Company has also issued 200,000 stock options to the consultants at a price of \$0.40 per common share, expiring three months after the end of the contract.
- (b) The consulting agreement previously entered into with B&D Capital Partners of Vancouver, BC. Has been modified to a monthly consulting fee of \$1,500 until the expiring date.
- (c) On January 7, 2008 the Company signed as guarantor for CFR Chemicals to lease new office space as of March 1, 2008. The new office space is located at Parkland Mall Suite 915, 4747-67 Street, Red Deer, AB. The lease is for five years with an option to renew. The Company will occupy an office and storage area. The terms of the lease are a monthly rate of \$4,024 comprised of a base rate and reimbursement of operating costs. The operating cost portion of the lease will be based on actual utilization and will be adjusted annually.

(d) Royalty agreements:

As compensation for the acquisition of the rights and patents in process, the Company has entered into two royalty agreements with the inventors of the technology, one of whom is a director and officer of the Company. The combined compensation payable under the royalty agreements is 5.0% (2.5% each) of gross revenues to the maximum of \$0.20 per litre (\$0.10 each) of product sold. These agreements will remain in effect for as long as the rights or patents exist. No royalty is payable to the director/officer while he is employed as an officer of the Company.

(e) Consulting agreement:

On April 11, 2006, the Company entered into a two-year consulting agreement with B & D Capital Partners of Vancouver, BC. The monthly consulting fee is \$3,000. The Company has also issued 240,000 stock options to the consultants at a price of \$0.30 per common share, expiring April 12, 2008.

(f) Edmonton office:

The Company entered into a six-year lease on office space effective October 1, 2004. The terms of the lease are a monthly rate of \$4,930 comprised of a base rate and reimbursement of operating costs. The operating cost portion of the lease will be based on actual utilization and will be adjusted annually.

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Notes to Financial Statements

Nine months ended May 31, 2008

9. Economic dependence:

During the nine months ended May 31, 2008, 47% of the Company's sales were to 5 companies out of the over 175 hundred customers for the period. The percentage of revenue for each of the five was 16.6%, 8.0%, 8.0%, 7.2% and 6.7%.

During the nine months ended May 31, 2007, 89% of the Company's sales were to five parties (2006 – 92% to five parties). The percentage of revenue for each of the five was 33%, 20%, 16%, 14%, and 6% (2006 – 33%, 28%, 12%, 12%, and 7%).

In all of 2007 (91% of sales were to five parties) the percentage of revenue for each of the five was 33%, 25%, 14%, 14%, and 8%. In 2006 (91% of sales were to five parties) the percentage for the top five customers were 29%, 19%, 17%, 17%, and 9% of sales.

Economic dependence has reduced over the past 9 months relative to the two previous years.

10. Subsequent event:

- (a) Warrants that were extended to June 8, 2008 in 2007 expired with no Warrants being exercised.
- (b) On June 26, 2008 one Warrant holder from the July 19, 2007 private placement exercised a portion of their Warrants and obtained 67,927 shares. This increases the total share capital 29,587,743 shares as of June 27, 2008.
- (c) CFR Chemicals Inc. has applied for an amendment in the operating line is has with BMO, to increase the credit available. Diversified Industries Ltd has signed as guarantor for the amendment to the operating line.

DIVERSIFIED INDUSTRIES LTD.

Schedule of General and Administrative Costs

Nine months ended May 31, 2008 and May 31, 2007

Schedule of General and Administrative Costs	Three Months Ended		Nine Months Ended	
	2008	2007	2008	2007
Office and miscellaneous	34,616	4,606	115,822	14,172
Telephone and internet	13,960	5,871	48,708	20,220
Insurance	21,024	5,462	66,923	16,482
Accreted Interest	5,513	5,202	17,276	15,436
Regulatory	750	18,594	7,038	27,804
Other Income	(6,523)	-	(38,690)	-
	69,339	39,734	217,077	94,114
