



51-102F1 – INTERIM MD&A

For the Nine months ended
May 31, 2008



Interim Management Discussion and Analysis For the nine months ended May 31, 2008

*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, 2007 and August 31, 2006 and is based on information available to **July 28, 2008**. 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. comprises of two business segments, the first is a product commercialization and development company for emerging or unique products and solutions targeted to a cross section of industries. The second business segment is the sale of blended specialty chemicals and bulk commodity chemicals from its Alberta locations through CFR Chemicals Inc. The Corporation continues to pursue technologies for acquisition and commercialization as well as further development of its own intellectual property. The Corporation continues to evaluate opportunities with other companies in order to build a family of oilfield chemicals and solutions by adding to their current specialized scavengers, through joint venture, merger or acquisition.

Strategy: The Corporation's key strategy is to focus on the overall growth and profitability of CFR Chemicals Inc. through expanded market share of both commodity and specialty chemicals to the oil and gas industries and the continued growth of DVS

6000. The Corporation has been investing in expanded infrastructure to support sales to a wider geographic region in western Canada. This has resulted in continued growth in our overall sales over the past three quarters and we anticipate very strong continued growth over the foreseeable future. The Corporation has also evaluated other chemicals and based on customer demand have increased the types of chemicals we stock and market. In addition the Corporation is to continue looking at and evaluating other unique technologies and products in the early stage of development. If the management and board of directors feel that there are sufficient synergies and or opportunities to license or acquire such technologies, steps will be taken to implement them into the Corporation. In order to reduce risk exposure and maximize the return on its technological investment, the Corporation will initially sell directly to key customers and commercial markets, thereby establishing market demand and enhancing the technology and/or product value.

Core Technology: Diversified's scavenger technology, DVS 6000, has been developed for several applications in multiple industries for the removal of H₂S from gas, oil, air, or water. The Corporation has chosen to focus its efforts on marketing DVS 6000 to the Western Canadian oil and gas industry as a primary market but has also generated ongoing interest from the United States and overseas markets. DVS 6000 is non-corrosive, water-based, non-flammable, has a mild odor, has an extremely low freeze point (below -45° C), and is competitive in price. In addition, the by-product is easy to dispose of due to its small micron size; as well, when compared to caustic soda and ammonia, DVS 6000 has the potential to produce as little as 10 times less by-product. DVS 6000 works longer than caustic soda and ammonia, resulting in less product to inventory, less shipping and handling costs, less by-product, and less disposal costs – all of which save the distributors and end users money and make DVS 6000 a smart product choice. It is a safe and effective alternative to other hazardous scavenger technologies. The product can be used in truck scrubbers, stationary scrubbers, vent gas scrubbers, under-balanced drilling, fuel gas scrubbing, down-hole scrubbing, well bleed downs, tank and vessel decontamination, vacuum truck scrubbing, plant shutdowns, flushing of coil tubing, flushing of pipe and pipelines to neutralize H₂S, and in the majority H₂S safety related situations. Ongoing lab testing and field trials are a significant part of day-to-day operations in order to further market penetration. In addition to this, with the assistance of the research and development team of CFR Chemicals Inc., the Corporation will continue to invest in new product development for unique oil and gas applications.

Distribution and Sales of blended and bulk commodity: 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 is approximately 7,500,000 litres of storage capacity spread over 50 tanks ranging in size from 20,000 to 320,000 litres.

Distribution and Sales of Core Technology: Diversified currently has several non-exclusive distribution partners for the Corporation's DVS 6000 H₂S scavenger technology. Sales have grown slowly over the initial years of the product's life cycle. The Corporation continues to work with its various distribution partners in order to increase sales and marketing efforts on DVS 6000. In Canada, Diversified has built strategic relationships with Dial Oilfield, Strike Oilfield Services and several oil and gas producer companies.

Diversified continues to work with several other companies both in Canada, the United States and abroad in efforts to expand DVS 6000 sales and distribution. With the recent acquisition of CFR Chemicals Inc. all manufacturing, sales and distribution of the DVS products are being conducted through the existing infrastructure, sales and marketing of CFR Chemicals Inc.

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 nine months ended May 31, 2008 operations were supported 109% by gross margin (2006 – 16%) with the remaining operational support coming from financing initiatives in fiscal 2007. Operations over the 2007 fiscal year were supported 80% through financing initiatives and 20% through margin (in 2006, operations were supported approximately 76% through financing initiatives and 24% through margin). The company's consolidated profit for the 3rd quarter was \$48,934 compared to a loss of \$310,075 the same period ending May 31, 2007. The company's consolidated profit for the 1st three quarters was \$370,744 compared to a loss of \$780,759 the same period ending May 31, 2007.

a. Revenue:

Revenue for the corporation increased from \$34,498 to \$4,320,087 for the 3 month period ending May 31, 2008, an increase of \$4,285,589 or 1,242%. The consolidated activities with CFR Chemicals Inc. have lead to this increase. Revenue of DVS 6000 increased by 252%, (kg of product sold increased 184%) for the 3 month period ended May 31, 2008 (\$121,575) over the three month period May 31, 2007 (\$34,498), this is in part due to the fact that from May 1, 2007 forward, the pricing for DVS6000 was reduced. With the consolidation of Diversified and CFR financial statements, there will be a significant change to overall revenue and profitability going forward. The CFR component of revenue for the quarter is up from \$3.135 million the year previous to \$8.607 million in the current period.

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 products such as DVS 6000, 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 the product. Customer trials and testimonials are also helping in this area. The Corporation has and will continue to increase its marketing efforts. Opportunities in the tens of millions exist for H₂S mitigation and sulphur removal projects.

During the nine months ended May 31, 2008 consolidated sales were to over 175 companies. The percentage of revenue for each of the top five 16.6%, 8.0%, 8.0%, 7.2% and 6.7% top total 47% . May 31, 2007, 89% of the Company's sales were to five parties each of the five were 33%, 20%, 16%, 14%, and 6% The current period consolidated revenue for Diversified is

generated through CFR Chemicals operations and includes DVS6000, blended and bulk product.

b. Direct Costs:

Direct costs increased from \$121,650 to \$14,287,807, an increase of 116% for the nine months ended May 31, 2008 Cost of Goods Sold as a percent of revenue 2008, 80.05% (2007 55.99%) or 19.95% Gross Margin (2007 44.0% and 2006 44.9%) The result is a higher level of overall sales with a lower margin for the Corporation. The increase in direct costs as a percentage of revenue in 2008 versus 2007 was due to the new mix of products sold which include several commodity type chemicals. The corporation is working with key suppliers to ensure stable costing and supply of material. The 2007 direct costs were strictly related to DVS6000, the 2008 direct costs are a result of the new mix of products.

c. Operating Expenses:

The following table shows the percentage change for each area of operating expense for the nine months ended May 31, 2008 and May 31, 2007.

Q3-08 MD&A Table of Operating Expenses

Nine months ended May 31, 2008 and 2007

Operating Expenses	2008	2007	% Change
Personnel	1,558,907	393,735	296%
Rent, property and utilities	507,919	73,886	587%
Professional fees	303,408	135,785	123%
Bank charges and interest	149,679	2,782	5281%
Long-term debt interest	579,483	-	#DIV/0!
Applied overhead	(430,545)	-	#DIV/0!
General and administrative (Schedule)	217,077	94,114	131%
Research and testing	32,947	73,926	-55%
Investor relations	39,817	42,057	-5%
Marketing and promotion	111,625	49,468	126%
Amortization	184,648	9,781	1788%
	3,254,964	875,533	272%

Operating expense in the current quarter has increased significantly over the past four quarters. This is due to control of CFR operations. The following table outlines the expenses for each of the five most recent quarters:

Quarterly Operating Expenses (Q3-08)

Quarterly Operating Expenses:	3 rd Quarter - Three Months Ended May 31, 2008	2 nd Quarter- Three Months Ended Feb. 28, 2008	1 st Quarter - Three Months Ended Nov. 30 2007	4 th Quarter - Three Months Ended Aug. 31, 2007	3 rd Quarter - Three Months Ended May 31, 2007
Personnel	\$ 456,647	\$ 541,259	\$ 565,971	\$85,618	\$114,356
Rent, property and utilities	155,981	167,086	154,209	9,697	22,409
Professional fees	26,774	101,657	174,978	62,333	63,729
Bank charges and interest	26,940	57,145	65,522	-	-
Long-term debt interest	198,861	197,013	183,609	-	-
Applied overhead	(124,157)	(186,597)	(119,791)	-	-
General and administrative (Sched	69,339	89,808	74,730	23,893	35,821
Research and testing	14,174	6,203	26,413	12,647	28,631
Investor relations	5,756	22,501	15,179	13,043	14,479
Marketing and promotion	10,785	69,315	31,525	3,837	27,522
Accreted interest	5,513	5,453	6,140	6,140	5,202
Amortization	63,826	60,814	60,008	3,261	3,260
	\$ 910,438	\$ 1,131,655	\$ 1,238,493	\$ 220,469	\$ 315,409

Personnel expenses for the current quarter are for approximately 22 full-time employees. The previous two quarters are for approximately 25 full-time employees of the Corporation. In past quarters there were 4 to 9 full-time employees. The third and fourth quarters of fiscal 2007 were down from prior periods due to a combination of employee turnover and a 20% reduction in pay to the top four executives of the Corporation which took effect for the last month of the first quarter of fiscal 2007, and has remained in place until October 31, 2007. The third quarter of fiscal 2007 personnel expenses decreased again as research and development employees left and became employees of CFR Chemicals. The fourth quarter of 2007 ended with only two employees. Stock based compensation expense has increased slightly over the past 5 quarters (see table below).

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 for fiscal 2007 (\$85,573) fiscal 2006 (\$80,348) has almost doubled over fiscal 2005 (\$42,932). In the current period research and testing expenditures (\$14,174) have decreased over the same period in the prior fiscal year (\$28,631). Expenditures in the current period are associated with the new scavenger development and patent costs.

Marketing and promotion expense has fluctuated significantly from quarter to quarter over the past five quarters. The first quarter of fiscal 2008 has seen a sizeable increase due to the significant sales in CFR. Marketing and promotional activities slowed down significantly during the summer. It is anticipated that marketing and promotion expense in the fourth quarter will be in proportion to sales and be approximately the same as the third quarter and then increase into the new year and fall 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 current quarterly expense (\$5,756) is down over the previous four quarters and is down 60% over the same period in fiscal 2007 (\$14,479).

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
Q3-2008	May 31, 2008	-	25,123	25,123
Q2-2008	February 29, 2008	1,208	18,655	19,863
Q1-2008	November 30, 2007	1,208	7,158	8,366
Q4-2007	August 31, 2007	3,619	13,337	16,956
Q3-2007	May 31, 2007	3,621	7,139	10,760

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.

Three months and 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

Overall, there was a significant increase in general and administrative costs in the quarter (\$69,339) versus 2007 (\$39,734) and in the first three-quarters (\$217,077 versus 2007 (\$94,114). This can be attributed to the considerably larger consolidated operations with CFR.

d. Net Income and Earnings per Share:

Compared to losses previously, the net income for the current quarter is \$48,934 with earnings per share of \$0.0017. The earnings for the first three-quarters of the year are \$370,744 with earnings per share of \$0.0126. In the previous year the corresponding quarter loss was \$300,662 with a loss per share of \$0.0215 and the first three-quarters of the year was a loss of \$779,847 with a loss per share of \$0.0556. In addition, there was an increase in the number of shares from last year, 14,015,066, to this year, 29,519,816, a difference of 15,504,750.

e. Assets:

Overall, as at May 29, 2008, total assets have increased by \$13,054,300 to \$14,271,950 from the most recent fiscal year end of August 31, 2007, \$1,217,650.

- **Cash** decreased to \$13,878 from \$898,240 at year end, a drop of \$884,362 (646%)
The decrease in cash is the result of several issues; an increase in inventory and fixed assets, the purchase of 10% of CFR from 321 Cathedral Ltd and the intent to keep the revolving loan balance as low as possible.
- **Receivables** have increased from \$110,442 to \$2,659,058 due to increased sales in CFR. Average customer days to pay are approximately 58 to 66.
- **Inventory** has increased from zero at year-end to \$2,366,415 due to the consolidation with CFR
- **Pre-paid expenses** increased to \$45,838 from \$11,616 at the prior year end. This increase is due to, the renewal of the Corporation's liability insurance policy in the month of November, where the premiums will be expensed over the course of the following 5 months.
- **Capital assets** increased to \$5,952,483 from \$39,852 at year-end. This increase is due to the land, property, plant and equipment owned by CFR at the tank farm locations in Alberta .(see Property, Equipment and leasehold improvements section in the Q3 2008 financials).

f. Liabilities:

For the current period, accounts payable and accrued liabilities have increased to \$1,253,900 from \$91,854 at the end of fiscal 2007. These accounts payable and accrued liabilities have been incurred during the normal course of operations.

The bank indebtedness is a credit facility supported by Accounts Receivable and Inventory through an Assets Based Lending agreement from The Bank of Montreal.

In the current period, total current liabilities increased to \$3,526,872 from \$449,365 at year-end.

Prior to fiscal 2006, the Corporation had been carrying over \$65,000 in accounts payable attributable to the operations of Blackrun Minerals Inc. – the former name of the Corporation. Some of these aged payables had been on the books for over ten years, and all had been on the books for more than five years. The Corporation has made multiple prior efforts to contact individuals and organizations to which funds were owed, and has been unsuccessful in contacting the vast majority of these parties and in clearing these liabilities. In July 2006, the Corporation made further efforts to contact several of the vendors with which these liabilities are held. This

resulted in the Corporation being able to reduce the number of outstanding aged payables attributed to Blackrun Minerals Inc. by \$14,308. The Corporation did not see any further change in the status of these payables over fiscal 2007 and removed a total of \$53,714 from the Balance Sheet at year end August 31, 2007.

g. Industry and Economic Factors:

The economic and industry factors have changed slightly since the annual management discussion and analysis was filed for the 2007 fiscal year end. The oil and gas industry has experienced a slight slowdown in drilling and exploration activity in Alberta. At this point the slowdown in drilling has not resulted in reduced sales for the Corporation. The stronger Canadian currency, which is up approximately 8 basis points from year-end, has resulted in a decrease in costs of raw products purchased from the United States. It is anticipated that the currency will stabilize between par and par +5 points.

3. SELECTED ANNUAL INFORMATION

This section is not required for the purposes of the interim management discussion and analysis. Please refer to the annual management discussion and analysis dated August 31, 2007 for the selected annual information.

4. SUMMARY OF QUARTERLY RESULTS

SUMMARY OF QUARTERLY RESULTS

	3rd 2008 31-May-2008	2nd 2008 29-Feb-2008	1st 2008 30-Nov-2007	4th 2007 31-Aug-2007
All amounts in Canadian dollars				
Revenue	4,320,087	8,607,958	4,925,515	25,509
Profit (Loss) from operations	11,690	442,612	(154,329)	(197,158)
Net Income (Loss)	48,934	449,999	(135,157)	(147,292)
Income (Loss) per share: basic & fully diluted	\$ 0.0017	\$ 0.0152	\$ (0.0046)	\$ (0.0102)
Weighted average # of shares outstanding: basic and Fully diluted	29,519,816	29,519,816	29,519,816	14,372,594
	3rd 2007 31-May-2007	2nd 2007 28-Feb-2007	1st 2007 30-Nov-2006	4th 2006 31-Aug-2006
Revenue	34,498	95,761	87,020	45,382
Profit (Loss) from operations	(300,724)	(268,140)	(211,041)	(270,884)
Net Income (Loss)	(310,075)	(264,371)	(206,313)	(255,982)
Income (Loss) per share: basic & fully diluted	\$ (0.022)	\$ (0.019)	\$ (0.015)	\$ (0.021)
Weighted average # of shares outstanding: basic and Fully diluted	14,015,066	14,015,066	14,015,066	12,469,861

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.

3rd Quarter of 2007, ended May 31, 2007

Revenue for the 3rd quarter of 2007 dropped dramatically, falling by 64% from the prior quarter - which was the highest quarterly revenue since the 1st quarter of fiscal 2006. The loss from operations and the net loss both increased versus the three prior quarters mainly due to larger than normal professional expenses associated with the acquisition of CFR Chemicals Inc. Still, net loss, on average is in line with the average for the eight most recent quarterly periods (\$298,676). It is anticipated that the net loss will improve going forward as the acquisition is closed.

2nd Quarter of 2007, ended February 28, 2007

Revenues for the 2nd quarter of 2007 rose 10% over the prior quarter, increasing 14% over the average quarterly revenue for the four most recent quarters (\$84,020), and achieving the highest quarterly revenues since the 1st quarter of fiscal 2006. The operating loss and net loss rose over the first quarter of fiscal 2007, but were below the two year average operating and net loss

(\$294,968 and \$296,152 respectively). The rise in operating costs for the current quarter is attributable to professional fees for accounting and legal, due to audit and efforts on acquisitions.

1st Quarter of 2007, ended November 30, 2006

Revenues for the 1st quarter of 2007 rose versus those of the 4th quarter of fiscal 2006 and were above the quarterly average of \$74,187 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 lower personnel costs, lower marketing and promotional expenses, and lower investor relations expense. The impact of non-cash stock based compensation expense also decreased significantly.

4th Quarter of 2006, ended August 31, 2006

Revenues for the 4th quarter of 2006 declined significantly versus the 3rd quarter and were also lower than revenues for the same quarter in the prior fiscal year. Loss from operations and net loss were also down considerably from prior quarters. This is due mainly to the combination of employee turnover, lower professional costs, lower marketing and promotional costs, lower general and administrative expense and lower stock based compensation expense.

3rd Quarter of 2006, ended May 31, 2006

The 3rd quarter of 2006 looked a little more positive on the revenue side than the 2nd quarter, however, was still lower than revenue from the same quarter of the prior fiscal year (this is due mainly to a large purchase made on the final day of the third quarter in the preceding fiscal year (which also resulted in lower Q4-05 revenues). Often, given the volume of DVS 6000 sales, the timing of client purchases can result in rather large swings in revenue when looking at quarterly periods. Two financings announced during the quarter (totalling \$1,300,000) closed after the end of the quarterly period. Expenditure and loss levels were fairly consistent with that of prior periods, but slightly higher than average.

5. LIQUIDITY & SOLVENCY

As at May 31, 2008, the Corporation had \$73,059 in cash and cash equivalents (based on the Bank of Canada US\$ noon exchange rate). As little cash as possible is kept in the bank accounts to reduce the amount of the credit line and reduce the amount of interest expense.

The average monthly net profit for the last nine months has been 41,194. The average monthly net income over the past one year period is \$18,040 (this figure includes non-cash items such as depreciation of capital assets, and non-cash, stock-based compensation expense of approximately \$21,517 per month; as well, the net profit figures also include any extraordinary items). The average monthly net loss over the past two year period is \$34,177 (however this figure includes non-cash items such as depreciation of capital assets, and non-cash, stock-based compensation expense of approximately \$13,275 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, much 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 May 31, 2008 the \$5,000,000 credit line had \$2,157,984 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 for an additional \$300,000 in capital expenditures. The Corporation, having now closed a convertible debenture financing, will be responsible for the payment of 7% interest per annum on principal of \$700,000 in the form of cash or through the issuance of common shares. One debenture holder has converted their principal and interest into common shares during the previous quarter. In the near term the Corporation will finance 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 \$6,800/month off balance sheet lease commitment.

8. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties for the period ended May 31, 2008 and 2007 are stated below. These amounts include wages for four different officers, one of whom is also a director.

Related party transactions

For the nine months ended May 31, 2008 and May 31, 2007	<u>2008</u>	<u>2007</u>
Paid to an officer or director for: Wages and benefits for one officer/director and three officers	\$ 344,657	\$ 234,400

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	29,519,816	\$4,248,799

For further detail see Note 5(b) of the annual financial statements for years ended August 31, 2007 and 2006.

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

Options Outstanding as at May 31, 2008:

Date of Grant	Optionee Office	Expiry Date	Number of Options	Exercise Price/Share
26-Feb-2008	Directors & Officers	26-Feb-2013	100,000	0.40
4-Dec-2007	Consultant	4-Dec-2012	200,000	0.40
10-Oct-2007	Directors & Officers	10-Oct-2012	400,000	0.40
10-Oct-2007	Consultant	10-Oct-2012	700,000	0.40
21-Mar-2007	Directors & Officers	12-Mar-2012	250,000	0.30
21-Apr-2006	Consultant	21-Apr-2011	50,000	0.40
24-Mar-2006	Consultant	14-Mar-2011	25,000	0.40
2-Mar-2006	Directors & Officers	2-Mar-2011	240,000	0.40
17-Feb-2005	Directors & Officers	17-Feb-2010	190,000	0.40
1-Dec-2004	Consultant	1-Dec-2009	100,000	0.40
3-Aug-2004	Directors & Officers	2-Aug-2009	100,000	0.40
22-Mar-2004	Directors & Officers	22-Mar-2009	50,000	0.40
Total options outstanding & weighted average exercise price			2,405,000	0.39

No options have been amended during the nine months ended May 31, 2008. There were 1,400,000 options granted at \$0.40, 125,000 options expired at \$0.40 and 280,000 options at \$0.40 were cancelled.

Share Purchase Warrants Outstanding as at May 31, 2008:

Date of Grant	Expiry Date	Number of Warrants	Exercise Price/Share
19-Jul-07	19-Jul-09	12,500	0.45
19-Jul-07	19-Jul-09	220,729	0.30
19-Jul-07	19-Jul-09	1,504,917	0.45
9-Jun-06	9-Jun-08	490,000	0.40
9-Jun-06	9-Jun-08	2,000,000	0.35
Total share purchase warrants outstanding & weighted average price:		4,228,146	\$ 0.41

No warrants have been issued or expired during the nine months ended May 31, 2008. Warrants that were set to expire on July 19, 2008 were extended to July 19, 2009 with approval by the exchange.

Convertible Debentures Outstanding as at May 31, 2008:

Date of Grant	Due Date	Value of Debentures	Number of Common Shares on Conversion	Exercise Price/Share
9-Jun-06	9-Jun -09	\$ 700,000	2,000,000	\$ 0.35
19-Oct-07	Debenture converted	150,000	428,571	0.35
30-Nov-07	Debenture outstanding	550,000	1,571,429	0.35

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 2006, the Corporation issued \$700,000 in convertible debentures to a small group of four placees, one of which is a company controlled by an insider and director of the Corporation. The debentures are convertible into common shares at \$0.35 of principal outstanding. In addition, the Corporation has issued 490,000 share purchase warrants to purchase 490,000 common shares at an exercise price of \$0.40 per common share for up to two years from the date of closing. The debenture will yield 7% interest payable annually, but which is also deferrable until the end of the full three 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.

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.

Accounts Receivable

To date 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. To date the Corporation has never had a receivable go uncollected. As the Corporation or its affiliate, 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\$20,000 for the period. Purchases of inventory in U.S. currency have been approximately \$2,870,000 for the period. Payments in U.S. currency during the period were \$3,660,000. 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 \$37,244. For the three quarters the Corporation recognized a currency gain of \$67,073 on U.S. dollar purchases of \$11,724,000 and U.S. dollar payments of \$11,775,000.

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 obtain 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 has filed, and is actively pursuing, applications for patents in Canada, the United States and other countries. Furthermore, there can be no assurance that others will not independently develop similar products, which duplicate any of Diversified's technology or products or, if patents are issued to Diversified, 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.