



51-102F1 – INTERIM MD&A

For the 3 months ended
November 30, 2008





Interim Management Discussion and Analysis For the three months ended November 30, 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, 2008 and August 31, 2007 and is based on information available to **January 28, 2009**. Diversified owns 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 significant segment is the development, marketing and sale of blended specialty chemicals and bulk commodity chemicals through CFR Chemicals Inc. from its Alberta and British Columbia locations. The remaining business segment is the product commercialization and development of emerging or unique products and solutions in industries including, but not limited to the oil and gas sector. Through this initiative the Corporation continues to pursue technologies for acquisition and commercialization in addition to the development of its own intellectual property. The objective is to evaluate other business opportunities and build a family of oilfield chemicals and solutions, 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 industry. 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 overall sales over the past four

quarters. The Corporation has also evaluated other chemicals and based on customer demand has increased its product family accordingly.

The patented scavenger technology DVS 6000, is being rebranded as StaSweet 6000 to be consistent with CFR Chemicals other branded products StaCool and StaClean. StaSweet 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 StaSweet 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. StaSweet 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, StaSweet 6000 has the potential to produce as little as 10 times less by-product. StaSweet 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 StaSweet 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. Over the past 12 months, the Company has done extensive work to further develop the technology to give it value in a wider range of applications. There is growing acceptance of the product among service providers, oil and gas producers and regulatory agencies. The Corporation is in the process of evaluating two new versions of this technology and will consider filing for a provisional patent if management feels the benefits are significant and unique enough to warrant protecting the new formulations.

The Corporation will continue to invest in other new product development for unique oil and gas applications with a focus on enhanced oil recovery and well stimulation products.

Distribution and Sales of blended and bulk commodity: Diversified has recognised that 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: In Canada, Diversified has built strategic relationships with several oil and gas production and service companies who are either marketing the product to their customers or using the product internally. Diversified continues to work with several other companies both in Canada, the United States and abroad in efforts to expand StaSweet 6000 sales and distribution.

2. OVERALL PERFORMANCE

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 3 months ended November 30, 2008 operations were supported 80% by gross margin and 20% from financing initiatives. Operations for the 2007 same three month period were supported 88% by gross margin and 12% through financing initiatives. The Company's consolidated loss for the quarter was \$255,000 compared to a loss of \$135,000 for the same period ending November 30, 2007.

The past 3 months have been challenging due to in part to a significant down turn in the price of oil and gas. In addition, the company has seen a marked decrease in the price of many commodities and a significant weakening of the Canadian dollar over the same period. These two factors have had a negative affect on the company's performance even though our overall business has increased over the same period one year ago. With many commodities at or close to what is expected to be the bottom and with a stabilizing of the Canadian dollar, the company feels that many of the factors that have negatively affected the company over the past 4 to 6 months have improved.

a. Revenue:

Revenue for the corporation decreased slightly from \$4,925,000 to \$4,909,000 for the comparative quarter ended August 31, 2008, a difference of \$16,000. Revenue of StaSweet 6000 increased from \$60,900, 2008 1st Quarter, to \$147,300, 2009 1st Quarter, an increase of 141%, (kg of product sold increased by 163%) for the year ended August 31, 2008.

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 Asian 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 has and will continue to increase its marketing efforts.

During the quarter consolidated sales were made to over 125 companies. The percentage of revenue for the top five was 36% (2008 – 50%). The current period consolidated revenue for Diversified is generated through CFR Chemicals operations, bulk and blended product, tank and product rental and specialty chemical blends and StaSweet 6000.

b. Direct Costs:

Direct costs increased from \$3,727,000 to \$3,926,000, an increase of approximately \$199,000 for the comparative quarters. Cost of Goods sold as a percent of revenue in the quarter was, 79.9% (2008 75.7%). The result is a decrease in gross margin for the Corporation. The increase in direct costs as a percentage of revenue in 2009 versus 2008 was due to the mix of products sold which included distribution of several commodity type chemicals. The Corporation is working with key suppliers to ensure stable costing and supply of material.

c. Operating Expenses:

The following table shows the percentage change for each area of operating expense for the quarters ended November 30, 2008 and November 30, 2007.

Three months ended November 30, 2008 and 2007			
Operating Expenses	2008	2007	% Change
Personnel	\$ 529,587	\$ 565,971	-6.87%
Rent, property and utilities	\$ 149,011	154,209	-3.49%
Professional fees	\$ 54,465	174,978	-221.27%
Bank charges and interest	\$ 50,726	65,522	-29.17%
Long-term debt interest	\$ 187,719	183,609	2.19%
General and administrative (Schedule)	\$ 51,152	74,730	-46.09%
Research and testing	\$ 39,255	26,413	32.71%
Investor relations	\$ 4,925	15,179	-208.20%
Marketing and promotion	\$ 47,070	31,525	33.02%
Amortization	\$ 114,214	60,008	47.46%
	\$ 1,228,124	\$ 1,352,144	-10.10%

Operating expenses in the quarter have decreased by 10% over the comparative quarter. This is due to changes in CFR operations in response to the changing business and economic environment. The following table outlines the expenses for each of the five most recent quarters:

Quarterly Operating Expenses:	1st Quarter Nov. 30 2008	4th Quarter August 31, 2008	3rd Quarter May 31, 2008	2nd Quarter Feb. 28, 2008	1st Quarter Nov. 30 2007
Personnel	\$ 529,587	\$ 472,735	\$ 456,647	\$ 541,259	\$ 565,971
Rent, property and utilities	\$ 149,011	195,727	\$ 155,981	167,086	\$ 154,209
Professional fees	\$ 54,465	104,723	\$ 26,774	101,657	\$ 171,872
Bank charges and interest	\$ 50,726	44,829	\$ 26,940	57,145	\$ 65,522
Long-term debt interest	\$ 187,719	176,572	\$ 198,861	197,013	\$ 183,609
General and administrative (Schedule)	\$ 51,152	111,551	\$ 69,339	89,808	\$ 77,836
Research and testing	\$ 39,255	43,732	\$ 14,174	6,203	\$ 26,413
Investor relations	\$ 4,925	9,888	\$ 5,756	22,501	\$ 15,179
Marketing and promotion	\$ 47,070	14,604	\$ 10,785	69,315	\$ 31,525
Amortization	\$ 114,214	133,923	\$ 63,826	60,814	\$ 60,008
	\$ 1,228,124	\$ 1,308,284	\$ 1,029,083	\$ 1,312,800	\$ 1,352,144

Personnel expenses for the current quarter are for approximately 21-23 full-time employees. Professional fees have fluctuated over the quarters and are for legal, accounting and auditing services related to the CFR purchase, year-end requirements and bank reporting requirements. Bank charges and short term interest have increased over the past several months due to increased credit line usage. Long term interest expense has increased due to long term loans used to finance fixed asset additions. The majority of research and testing expenditures over

the past five quarters are associated with lab work and field trials on StaSweet 6000 and the a second H₂S scavenger under development. Marketing and promotion expense has fluctuated from quarter to quarter over the past five quarters. The first quarter of fiscal 2009 has seen a sizeable increase due to the sales increase in the fall and winter seasons from the slow down during the spring and summer.

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 (\$4,925) is down from the previous five quarters. Amortization expense has continued to increase due to asset additions. The new assets have enabled increased service levels.

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
Q1-2009	November 30, 2008	-	22,798	22,798
Q4-2008	August 31, 2008	-	22,799	22,799
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

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					
	1 st Quarter	4th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
	Nov. 30	Aug. 31,	May 31,	Feb. 28,	Nov. 30
	2008	2008	2008	2008	2007
Office and miscellaneous	33,978	71,141	34,616	54,472	51,682
Telephone and internet	13,570	14,043	13,960	18,456	8,145
Insurance	20,956	21,194	21,024	20,505	25,394
Accreted Interest	6,622	6,573	5,513	5,453	6,310
Regulatory	684	800	750	6,288	3,106
Other Income	(24,658)	(2,200)	(6,523)	(15,366)	(16,801)
	51,152	111,551	69,339	89,808	77,836

Overall, there has been a swing in general and administrative costs over the past year from a high of \$111,551 to a low of \$51,152. The swings are attributable to the different quarters and activities occurring in the business environment.

d. Net Income and Earnings per Share:

Net loss and loss per share have both increased from the prior year. The current year's net loss of \$255,194 is a 53% increase from that of the comparative period net loss of \$135,156. Loss per share increased from \$0.0046 in 2008 to \$0.0086 in 2009. There was also an increase in the basic and fully diluted weighted average number of shares outstanding, but it has no significant effect on the net loss per share.

e. Assets:

At November 30, 2008, total assets have increased to \$16,863,596 from \$14,564,181 at August 31, 2008.

- **Cash** increased to \$98,993 from \$15,099 at year end, an increase of \$83,894. The increase in cash is the result of the timing of cheques clearing the bank relative to cash balance. A minimum of cash is kept in the chequing accounts in order to keep the revolving loan balance as low as possible.
- **Receivables** have increased from \$2,127,363 to \$3,980,653 due to the typical sales in the fall season of the oil and gas industry. Average customer days to pay are approximately 59 to 65 days.
- **Inventory** has increased from \$3,065,354 at year-end to \$3,118,703 due to preparations of the winter season activity, second quarter.
- **Pre-paid expenses** increased to \$227,519 from \$57,183 at the year end. This increase is due to prepaid property taxes, prepaid liability insurance and a deposit on inventory purchased and in transit.
- **Capital assets** increased to \$6,229,451 from \$6,090,905 at year-end. This increase is due to several more tanks purchased and setup.(see Property, Equipment and leasehold improvements in note 4 of the August 31, 2008 financial statements).

f. Liabilities:

The bank indebtedness of \$3,407,230 at November 30, 2008 increased from the year-end balance of \$1,716,932 due to supplier payments for inventory that was sold to increase the Accounts Receivable balance. The credit facility from the Bank of Montreal is supported by Accounts Receivable and Inventory through an Assets Based Lending agreement. At November 30, 2008 the accounts payable and accrued liabilities have increased to \$1,569,309 from \$1,512,994 at the August 31, 2008. These accounts payable and accrued liabilities have been incurred during the normal course of operations. The total current liabilities increased to \$5,281,226 from \$3,624,024 at August 31, 2008. The long term debt of \$8,730,775 is related to property plant and equipment financing. (see Long-term Debt in note 6 of the August 31, 2008 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 oil and gas industry has experienced continuing slowdown in drilling and exploration activity in Alberta. At this point the slowdown in drilling has not resulted in reduced sales for the Corporation. Several companies in the Oil and Gas industry have laid-off workers over the past several months. The Canadian currency, which was stronger in value for approximately 9-10 months of last year weakened through the fall to November 2008 and ended the quarter at approximately 1.26 Canadian to one U.S. dollar.

As mentioned previously, there has been a significant reduction in commodity prices, especially petrochemicals due to the rapid decline of crude oil prices over the past 4 months. The fall in

commodity prices has stabilized and the Corporation has seen a significant increase in margins and sales by volume.

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, 2008 for the selected annual information.

4. SUMMARY OF QUARTERLY RESULTS

SUMMARY OF QUARTERLY RESULTS

	1st 2009 30-Nov-2008	4th 2008 31-Aug-2008	3rd 2008 31-May-2008	2nd 2008 29-Feb-2008
(all figures are in Canadian dollars)				
Revenue	\$ 4,909,978	\$ 2,779,434	\$ 4,320,087	\$ 8,607,958
Profit (Loss) from operations	\$ (244,607)	\$ (615,021)	\$ 11,690	\$ 442,612
Net Income (Loss)	\$ (255,194)	\$ (855,824)	\$ 48,934	\$ 449,999
-Per common share-Basis and Diluted	\$ (0.009)	\$ (0.029)	\$ 0.002	\$ 0.015
Weighted Average Shares Outstanding	29,587,743	29,587,743	29,519,816	29,519,816
	1st 2008 30-Nov-2007	4th 2007 31-Aug-2007	3rd 2007 31-May-2007	2nd 2007 28-Feb-2007
Revenue	\$ 4,925,515	\$ 25,509	\$ 34,498	\$ 95,761
Profit (Loss) from operations	\$ (154,329)	\$ (197,158)	\$ (300,724)	\$ (268,140)
Net Income (Loss)	\$ (135,157)	\$ (147,292)	\$ (310,075)	\$ (264,371)
-Per common share-Basis and Diluted	\$ 0.005	\$ (0.010)	\$ (0.022)	\$ (0.019)
Weighted Average Shares Outstanding	29,519,816	14,372,594	1,415,066	14,015,066

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.

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.

5. LIQUIDITY & SOLVENCY

As at November 30, 2008, the Corporation had \$98,993 in cash and cash equivalents (based on the Bank of Canada US\$ noon exchange rate). A minimum of cash is kept in the bank accounts to reduce the amount of the credit line and the resulting amount of interest expense.

The average monthly net loss for the past 12 months has been \$51,007 (this figure includes non-cash items such as depreciation of capital assets, and non-cash, stock-based compensation expense of approximately \$38,614 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 \$75,475 (however this figure includes non-cash items such as depreciation of capital assets, and non-cash, stock-based compensation expense of approximately \$24,226 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, 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 November 30, 2008 the \$8,000,000 credit line had \$3,407,230 funds advanced. Availability to the credit line is created by the discounting of Accounts Receivable and Inventory.

6. CAPITAL RESOURCES

Currently the Corporation has committed for an additional \$125,000 in capital expenditures. The Corporation, closed a convertible debenture financing in 2007, and is 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. In 2008 one debenture holder has converted their principal and interest into common shares during the year. 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 August 31, 2008 and 2007 are stated below. These amounts include wages for four different directors, one of whom is also an officer.

For the years ended August 31, 2008 and August 31, 2007	<u>2008</u>	<u>2007</u>
Paid to an officer or director for: Wages and benefits for one officer/director and three directors	\$ 60,900	\$ 191,200

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	29,587,743	\$4,269,177

For further detail see Note 5(b) of the annual financial statements for years ended August 31, 2008 and 2007.

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

Options Outstanding as at November 30, 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	200,000	0.40
21-Apr-2006	Consultant	21-Apr-2011	50,000	0.40
2-Mar-2006	Directors & Officers	2-Mar-2011	120,000	0.40
17-Feb-2005	Directors & Officers	17-Feb-2010	60,000	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

Total options outstanding & weighted average exercise price 2,030,000 0.40

No options have been amended, granted or expired during the quarter ended November 30, 2008. There were 375,000 options at \$0.40 cancelled.

Share Purchase Warrants Outstanding as at August 31, 2008:

Date of Grant	Expiry Date	Number of Warrants	Exercise Price/Share
19-Jul-07	19-Jul-09	1,504,917	0.45
Total share purchase warrants outstanding & weighted average price:		1,504,917	\$ 0.45

No warrants have been issued or expired during the year ended August 31, 2008. Warrants that were set to expire on July 19, 2008 were extended to July 19, 2009 with approval by the exchange on April 14, 2008.

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 predominantly with North American corporations in terms of sales and thus has limited exposure to the risk of dealing with overseas entities. The corporation has over 250 customers that it deals with over a twelve month period. The Corporation is in 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 has implemented the requirement of an irrevocable letter of credit for international sales. In one case management is putting accounts receivables insurance in place for a large international sale to eliminate the potential risk.

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\$15,000 for the period. Purchases of inventory in U.S. currency have been approximately \$4,378,000 for the period. Payments in U.S. currency during the period were \$4,498,000. Due to the large value of transactions to date, the Corporation is exposed to foreign currency risk. For the period of September 1 to November 30, 2008 the Corporation recognized a currency loss of \$140,178. The year prior the Corporation had a currency gain of \$107,878.

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 products such as StaSweet 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 its products 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 – The Corporation's success with its proprietary products 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.

12. SUBSEQUENT EVENTS

There were no subsequent events.