



51-102F1 – INTERIM MD&A

For the 3 months ended
February 28, 2010



Interim Management Discussion and Analysis For the three months ended February 28, 2010

*The following discussion and analysis of financial results of Diversified Industries Ltd. (the "Corporation" or "Diversified") on a consolidated basis, using the Purchase Method, with CFR Chemicals Inc. should be read in conjunction with the Corporation's audited annual financial statements and the accompanying notes for the periods ended August 31, 2009 and August 31, 2008 and is based on information available to **April 23, 2010**. 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.*

The Corporation has financing arrangements with the Bank of Montreal and No 321 Cathedral Ventures. Due to an unprofitable last year the corporation failed to maintain a banking covenant ratio which was a breach of the bank credit facility. This prevented the corporation from making other financing payments which caused a breach of that loan agreement. Breaches of the conditions of loan agreements with its two prime lenders have given the lenders the unilateral right to demand immediate repayment of any portion or all of the debt.

The ability of the Company to continue as a going concern is dependent upon its ability to generate sufficient funds through operations or to raise capital to meet its obligations as they become due and to maintain support from its lenders. Management believes that it will be able to obtain the necessary financing to meet the Company's requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be maintained.

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. They do not reflect adjustments to the carrying values of assets and liabilities which may be necessary should the Company be unable to do so and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements.

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.

Introduction and Financial Highlights

The Corporation's second quarter ended on a high note with the highest quarterly revenue in the history of the company. This is now two consecutive quarters where the Corporation has achieved record revenues for comparative previous periods. A stronger oil and gas industry, stabilized commodity prices, strengthening Canadian currency and careful execution of our sales growth strategies have all contributed to the stronger performance. With year-to-date revenue exceeding \$15 million, the Corporation is well on pace to see a 50% increase in revenue from the previous year,

The Corporation continued its work to improve operational efficiency through the quarter. The focus areas were to increase profitability and manage the seasonal variations that the Corporation has struggled with in the past. Rationalization of our workforce was initiated and decisions made to reduce staff were made. A stronger emphasis was placed on our higher margin, specialty products which are less seasonal and generate better returns.

Revenues were up over 58% from \$5,569,000 from the previous year to \$8,825,000 for the quarter.

Net Earnings are up \$235,000 from a \$97,000 loss last year to an income of \$138,000 this year.

Earnings Before Interest Tax Depreciation & Amortization (EBITDA) for the period was up over 100% to \$594,000 compared to \$285,000 for the same period a year ago.

The Corporation's contract to supply our patented hydrogen sulphide scavenger to the Middle East is underway and initial results are encouraging. This has significant, positive and long-term implications to the Company as it is expected that success with this initial contract will result in new opportunities and long-term supply agreements in the region.

1. DESCRIPTION OF BUSINESS

Diversified Industries Ltd. (DVS) is an innovative company, focused on providing unique chemical solutions to its diverse customer base both within western Canada and internationally. With the purchase of CFR Chemicals Inc. (CFR) in October 2007, the Corporation expanded its capacity to develop, manufacture and market a wider range of blended specialty chemicals and bulk commodity chemicals.

Traditionally, the Corporation was focused on expanding and growing its market for the Company's patented hydrogen sulphide scavenger. This continues to be an important part of the business both domestically and through export but with an expanded group of products to offer to its customers.

In April of 2009, CFR started a new division within the company that is focused on chemical stimulation service of oil, gas and disposal wells throughout western Canada. This new division has grown over the past two quarters and we anticipate that the division will help the corporation remain profitable through our traditionally slower spring and summer seasons and is expected to contribute significantly to the Corporation's long term growth and profitability.

Strategy: The Corporation's key strategy is to grow the overall profitability through increased market share of both commodity and specialty chemicals to the oil and gas industry and the introduction of new, specialty and proprietary production and stimulation products and services. Having a strong line of unique and proprietary products and the expertise to help solve many of our customer's challenges is a key to our success. Much of the world's oil and gas production is becoming more challenging to access and this is giving the Corporation a significant opportunity to provide chemical solutions. The Corporation has also placed an increased emphasis on selling its products and services to end users rather than through distribution.

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

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

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

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

The Corporation continues to invest in new product development and has also established a strong relationship with a key US supplier. The US company has a very strong line of specialty oilfield chemicals that will give the company access to over 600 new chemical formulations to treat everything from calcium carbonate, calcium sulfate, barium sulfate, strontium sulfate, iron sulfide and iron oxide scales, corrosion, emulsions, paraffin and asphaltene contamination and products that can assist our customers with a number of other surface and down hole problems.

The Corporation continues to expand sales and application for its various hydrogen sulphide (H₂S) scavenger technologies. The treatment of low parts per million of H₂S contamination in produced crude oil or water is one area that the Corporation continues to see success. Stranded sour gas is one area of opportunity as the company is able to use its patented hydrogen sulphide scavenger to eliminate the contaminant and allow for the gas to be produced into existing sweet gas pipelines. With much of the world's oil and gas becoming contaminated with H₂S and because of the dangerous and corrosive nature of H₂S, the Corporation continues to see this as a significant part of the future growth of the company both domestically and internationally.

Infrastructure and expanded distribution outlets: The Corporation's core business is the distribution and manufacturing of production and process chemicals, supplying customer specific blended product, proprietary chemicals and bulk commodity chemicals. Over the past three years the Corporation has invested significantly into expanding our capacity and capabilities for future growth. At the CFR Kuusamo location west of Red Deer the Corporation has approximately 7,500,000 litres of storage capacity in over 50 tanks ranging in size from 20,000 to 320,000 litres. With service being a key component to gaining market share the Corporation has strategically expanded bulk and packaged goods storage into eight new locations over the past year.

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

2. OVERALL PERFORMANCE

The Corporation has seen a significant increase in the three months ended February 28, 2010. During this period, operations were supported 100% by gross margin. Operations over the 2009 fiscal year were supported 40% through financing initiatives and 60% through margin. The Corporation's consolidated profit for the quarter was \$138,000 compared to a loss of \$97,000 the same period ending February 28, 2009.

a. Revenue:

Revenue for the Corporation increased from \$5,570,000 to \$8,825,000 for the comparative quarter ended February 28, 2010, a change of \$3,255,000. Revenue of StaSweet 6000 increased from \$56,900 to \$596,900 an increase of over 10 times, (kg of product sold increased by over 14 times) for the quarter ended February 28, 2009. This is due to the increasing market acceptance of the benefits of StaSweet 6000 relative to competitive formaldehyde based scavengers and a contract in the Middle-East.

The following table shows the quarter revenue for the last 14 quarters ended February 28, 2010 and the fiscal annual totals.

SUMMARY OF QUARTERLY REVENUES						
	1st	2nd	3rd	4rd	Total	
2010	\$ 6,177,489	\$ 8,825,121				\$ 15,002,610
2009	\$ 4,909,978	\$ 5,569,590	\$ 2,973,152	\$ 3,380,547	\$	16,833,267
2008	\$ 4,925,515	\$ 8,607,958	\$ 4,320,087	\$ 2,779,434	\$	20,632,993
2007	\$ 87,020	\$ 95,761	\$ 34,498	\$ 25,509	\$	242,788

All amounts in Canadian dollars

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

During the quarter consolidated sales were made to over 200 (2009 – 135) companies. The percentage of revenue for the top five was 40% (2009 – 43%). The percentage of revenue for each of the five ranged from 5% to 11% (2008 5% to 12%).

During the six months ended February 28, 2010, 37% (February 28, 2009 - 36%) of the Company's sales were to five companies from over 260 (2009 – 170) customers for the quarter. The percentage of revenue for each of the five ranged from 5% to 13% (2009 5% to 12%).

During the year ended August 31, 2009, 47% (2008 - 47%) of the Corporation's sales were to five companies out of the over 225 (2008 - 225) customers for the year. The percentage of revenue for each of the five ranged from 6% to 13% (2008 - 7% to 16%).

b. Direct Costs:

Direct costs have increased this quarter over last quarter from \$4,355,000 to \$7,102,000 a difference of \$2,747,000. Cost of Goods sold as a percent of revenue in 2010 Q2 was 80.5% (2009 - 78.2% and in 2008 79.6%) or 19.5% Gross Margin (2009 - 21.8% and in 2007 20.4%). The result is an increased level of revenue with a slightly lower gross margin percent for the Corporation. Absolute gross margin dollars have increased from the comparative previous quarter. The increase in direct costs as a percentage of revenue in 2010 versus 2009 can be attributed to; competitive pricing in the market place, customer pushback and the changed mix of products sold. The Corporation continues to be focused on building stronger relationships with its key suppliers to ensure stable and competitive pricing and reliable delivery of product.

c. Operating Expenses:

The following table shows the percentage change for each area of operating expense for the quarters ended February 28, 2010 and February 28, 2009.

Three months ended February 28, 2010 and February 28, 2009			
Operating Expenses	2010	2009	% Change
Personnel	\$ 622,432	\$ 530,274	14.8%
Rent, property and utilities	\$ 240,895	\$ 155,845	35.3%
Professional fees	\$ 62,305	\$ 89,177	-43.1%
Bank charges and interest	\$ 88,942	\$ 67,690	23.9%
Long-term debt interest	\$ 244,144	\$ 200,117	18.0%
General and administrative (Schedule)	\$ 80,928	\$ 59,419	26.6%
Research and testing	\$ 17,345	\$ 18,563	-7.0%
Investor relations	\$ 7,957	\$ 6,055	23.9%
Marketing and promotion	\$ 34,116	\$ 38,896	-14.0%
Amortization	\$ 124,118	\$ 114,639	7.6%
	\$ 1,523,181	\$ 1,280,675	15.9%

Operating expense in the quarter have increased by 15.9% over the comparative quarter last year. Personnel expenses are up due to a higher level of salespeople and administrative staff compared to last year. Rent, property and utilities are up due to expanded distribution locations, higher property taxes and interest expense. However, professional fees have decreased and bank and interest charges have all increased due to higher levels of activity and borrowing to support these. General and administrative expenses have also increased due to higher levels of overall activity in the Corporation. Research and testing remained relatively the same from the previous year as did investor relations, marketing and promotion. Amortization is up slightly due to the significant capital expansion the Corporation experienced in the past two years with the first year being amortized at a lower rate.

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

Quarterly Operating Expenses:	2nd Quarter Feb. 28, 2010	1st Quarter Nov. 30 2009	4th Quarter August 31, 2009	3rd Quarter May 31, 2009	2nd Quarter Feb. 28, 2009
Personnel	\$ 622,432	\$ 605,717	\$ 622,852	\$ 556,111	\$ 530,274
Rent, property and utilities	\$ 240,895	\$ 187,186	\$ 213,077	\$ 183,024	\$ 155,845
Professional fees	\$ 62,305	\$ 45,368	\$ 80,492	\$ 54,287	\$ 89,177
Bank charges and interest	\$ 88,942	\$ 76,881	\$ 66,194	\$ 45,139	\$ 67,690
Long-term debt interest	\$ 244,144	\$ 230,090	\$ 213,029	\$ 202,986	\$ 200,117
General and administrative (Schedule)	\$ 80,928	\$ 86,000	\$ 229,941	\$ 63,186	\$ 59,419
Research and testing	\$ 17,345	\$ 24,963	\$ 11,397	\$ 19,532	\$ 18,563
Investor relations	\$ 7,957	\$ 1,500	\$ 1,500	\$ 1,500	\$ 6,055
Marketing and promotion	\$ 34,116	\$ 41,087	\$ 26,246	\$ 15,598	\$ 38,896
Amortization	\$ 124,118	\$ 127,909	\$ 165,279	\$ 117,655	\$ 114,639
	\$ 1,523,181	\$ 1,426,701	\$ 1,630,007	\$ 1,259,017	\$ 1,280,675

Personnel expenses for the current quarter include approximately 31-32 full-time employees, compared to 23-24 employees in the same quarter last year. The personnel expenses for the fourth quarter of fiscal 2009 and first quarter of 2010 are both higher than the previous three quarters due to the hiring of additional salespeople and support staff to increase sales and market share. The sales this quarter are the highest ever for the company.

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.

Marketing and promotion (M&P) expense has fluctuated significantly from quarter to quarter. M&P activities slowed down significantly during the spring. On an annual fiscal basis, the first quarter is typically the highest M&P quarter due to customer preparations for the fall and winter season.

Long term interest expense is up due to additional assets being acquired and the interest rate premium due to being in default of the banking covenant (see note 13)

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

Quarter	Quarter End Date	Investor Relations Stock-based Compensation	Personnel Stock- based Compensation	Total Stock-based Compensation Expense
Q2-2009	February 28, 2010	-	3,673	3,673
Q1-2010	November 30, 2009	-	3,340	3,340
Q4-2009	August 31, 2009	-	24,216	24,216
Q3-2009	May 31, 2009	-	18,340	18,340
Q2-2009	February 28, 2009	-	18,933	18,933

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 decreased slightly from last quarter but have increased relative to the comparative quarter from last year.

Schedule of General and Administrative Costs					
	2 nd Quarter	1 st Quarter	4th Quarter	3 rd Quarter	2 nd Quarter
	Three	Three	Three	Three	Three
	Months	Months	Months	Months	Months
	Ended	Ended	Ended	Ended	Ended
	Feb. 28,	Nov. 30	Aug. 31,	May 31,	Feb. 28,
	2010	2009	2009	2009	2009
Office and miscellaneous	\$ 19,234	\$ 23,783	\$ 122,225	\$ 16,711	\$ 13,477
Telephone and internet	12,763	27,047	18,295	16,858	11,858
Insurance	41,115	22,613	25,674	25,918	26,364
Accreted Interest	11,630	11,759	88,132	6,695	6,549
Regulatory	11,997	798	5,177	1,083	13,068
Other Income	(15,811)	-	(29,562)	(4,078)	(11,897)
	\$ 80,928	\$ 86,000	\$ 229,941	\$ 63,186	\$ 59,419

Overall, General and Administration costs are up slightly with previous quarters with the exception of the fourth quarter last year which included Accreted Interest Debenture expense and other year-end entries.

d. Net Income and Earnings per Share:

The net income for the quarter is \$138,000 compared to the previous year's quarter loss of \$97,000. This gives a net income per share of \$0.0038 compared to the loss per share of \$0.0033 last year. This is a result of the improvement in the industries economic conditions since last year. There was also an increase in the basic and fully diluted weighted average number of shares outstanding which impacts the earnings per share calculation.

e. Assets:

At February 28, 2010, total assets have increased to \$20,040,450 from \$14,861,905 at August 31, 2009.

- **Cash** increased to \$50,768 from \$1,032 at year end. The relatively small balance at year-end is the result of intentionally borrowing less from the line of credit to reduce interest expense.
- **Receivables** have increased to \$7,587,999 from \$2,546,930 due to increased sales over the fall season, relative to the fall of the previous year. Average customer days to pay are approximately 61 to 63.
- **Inventory** has increased by approximately \$204,000 to \$ 2,547,013 from \$2,343,856 at year end. The increase in inventory is normal due to increased business in the period. The inventory balance of \$2,547,013 is an increase from \$2,478,879 February 28, 2009.
- **Prepaid expenses** increased to \$361,066 from \$ 256,671 at the year end. This increase is due to prepaid property taxes, liability insurance, prepaid inventory in transit and a performance bond for the Kuwaiti contract.
- **Property, Plant & Equipment** decreased to \$6,269,929 from \$6,454,315 at year-end. This decrease is due to assets being disposed of and amortization for the quarter being

higher than the assets purchased. (see Property, Equipment and leasehold improvements in note 3 of the August 31, 2009 financial statements).

f. Liabilities:

The long-term bank indebtedness has been reclassified to short-term due to the breach in the covenant and the Bank of Montreal now has the option to call the loan for payment. The Bank of Montreal long-term loans are \$1,957,668. The long-term debt to No 321 Cathedral Ventures has been reclassified to short term debt for the amount of \$8,996,851. The credit facility balance with the Bank of Montreal of \$5,902,566 is an increase from \$2,495,470 at August 31, 2009. The credit facility from The Bank of Montreal is supported by Accounts Receivable and Inventory through an Assets Based Lending agreement. At February 28, 2010 the accounts payable and accrued liabilities have decreased to \$1,087,106 from \$1,368,549 at the end of fiscal 2009. In the change of accounts payable \$650,212 was reclassified from accounts payable to the short term debt of No 321 Cathedral Ventures. These accounts payable and accrued liabilities have been incurred during the normal course of operations. The total current liabilities increased to \$18,015,503 from \$4,184,828 at August 31, 2009. The long-term debt of \$217,389 is due to the vehicle loans. (see Long-term Debt in note 5 of the February 28, 2010 financial statements)

g. Industry and Economic Factors:

The economic and industry factors that challenged the company in the previous year have significantly improved and this is reflected in the second quarter's results. The price of oil over the quarter has increased and has helped the oil and gas industry in Alberta. The Canadian dollar has gained strength against the American dollar and has decreased the cost of purchasing many chemicals from outside of Canada. The changing exchange rate has allowed for foreign exchange gains to be taken as the market has changed.

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, 2009 for the selected annual information.

4. SUMMARY OF QUARTERLY RESULTS

	2nd 2010 28-Feb-2010	1st 2010 30-Nov-2009	4th 2009 31-Aug-2009	3rd 2009 31-May-2009
(all figures are in Canadian dollars)				
Revenue	\$ 8,825,121	\$ 6,177,489	\$ 3,380,547	\$ 2,973,152
Profit (Loss) from operations	\$ 199,217	\$ (236,213)	\$ (1,153,800)	\$ (686,908)
Net Income (Loss)	\$ 138,398	\$ (163,907)	\$ (997,116)	\$ (348,105)
-Per common share-Basis and Diluted	\$ 0.005	\$ (0.006)	\$ (0.034)	\$ (0.012)
Shares Outstanding	36,120,249	36,120,249	36,120,249	29,587,743
	2nd 2009 28-Feb-2009	1st 2009 30-Nov-2008	4th 2008 31-Aug-2008	3rd 2008 31-May-2008
Revenue	\$ 5,569,590	\$ 4,909,978	\$ 2,779,434	\$ 4,320,087
Profit (Loss) from operations	\$ (67,063)	\$ (244,607)	\$ (615,021)	\$ 11,690
Net Income (Loss)	\$ (96,953)	\$ (255,194)	\$ (855,824)	\$ 48,934
-Per common share-Basis and Diluted	\$ (0.003)	\$ (0.009)	\$ (0.029)	\$ 0.002
Shares Outstanding	29,587,743	29,587,743	29,587,743	29,519,816

2nd Quarter of 2010, ended February 28, 2010

Revenues for the 2nd quarter of 2010 increased from those of the 1st quarter of fiscal 2010 by \$2.6 million and are up for the comparative quarter from the prior year by \$3.3 million. This quarter represents the highest quarterly revenue, highest quarterly Gross Margin dollars and second highest quarter Net Income for the company. Gross Margin percentage is up from last quarter by 0.25%. Operating expenses are being reviewed and are expected to be reduced in order to improve profits in the future quarters.

1st Quarter of 2010, ended November 30, 2009

Revenue for the 1st quarter of 2010 increased 83% from the 4th quarter of last year. When compared to the 1st quarter of 2009 revenue is up 26%. The 1st quarter this year represents the second highest quarter on record for the company. Gross Margin percentage this quarter decreased by 0.8% compared to 1st quarter last year. Increased gross margin dollars were the contributing factor in the quarter having a reduced loss relative to other quarters. Increased property taxes, increased amortization and increased interest expense are the contributing factors for the current quarter loss.

4th Quarter of 2009, ended August 31, 2009

Revenue for the 4th quarter of 2009 increased 13% from the 3rd quarter, when compared to the 3rd and 4th quarters of 2008 where revenue decreased from \$4.3 million to \$2.8 million a change of 35%. The 4th quarter this year is also up from the comparative quarter last year by 21%. Decreased gross margin percentage in the 4th quarter, increased property taxes, increased number of salespeople, increased amortization due to year-end reconciliation and debenture interest expense has led to the larger loss this quarter and year-end versus last year.

3rd Quarter of 2009, ended May 31, 2009

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

2nd Quarter of 2009, ended February 28, 2009

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

1st Quarter of 2009, ended November 30, 2008

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

4th Quarter of 2008, ended August 31, 2008

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

3rd Quarter of 2008, ended May 31, 2008

Revenues for the 3rd quarter declined 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.

5. LIQUIDITY & SOLVENCY

As at February 28, 2010, the Corporation had \$50,768 in cash and cash equivalents (based on the Bank of Canada US\$ noon exchange rate). Liquid cash is kept at a minimum to reduce the credit line and the resulting amount of interest expense.

The average monthly net loss for the past 12 months has been \$114,227 (this figure includes non-cash items such as depreciation of property, plant and equipment, and non-cash, stock-based compensation expense of approximately \$4,131 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 \$105,407 (however this figure includes non-cash items such as depreciation of capital assets, and non-cash, stock-based compensation expense of approximately \$5,501 per month; as well, net loss figures also include any extraordinary items). While the acquisition of 50% of CFR did reduce the cash in the Corporations reserve in 2007, nearly all of the overhead of the

Corporation has been transferred to CFR Chemicals Inc. or has been eliminated due to duplication.

The Corporation is able to generate significant revenues from product sales. The solvency of the Corporation is directly related to CFR's credit line with the Bank of Montreal. As of November 30, 2009 the \$8,000,000 credit line had \$5,902,566 in funds had been advanced. Availability to the credit line is created by the factoring of Accounts Receivable and Inventory.

6. CAPITAL RESOURCES

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

7. OFF BALANCE SHEET ARRANGEMENTS

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

8. TRANSACTIONS WITH RELATED PARTIES

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

Related party transactions

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

9. Internal Control Over Financial Reporting

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for design of internal control over financial reporting or causing it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principals. The consolidation with CFR Chemicals Inc. has allowed the Corporation more depth and experience in the management of all accounting functions. Effective disclosure controls and procedures are achieved, despite the CFR material weakness, that audits are performed annually and that the CFO is directly involved in the design and implementation of disclosure controls and procedures. Any potential errors through the year will be determined through the audit process.

10. OUTSTANDING SECURITY DATA

Description of Share Capital

Authorized Capital:

- Unlimited common shares, without par value

Issued and Outstanding:

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

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

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

Options Outstanding as at February 28, 2010:

Date of Grant	Optionee Office	Expiry Date	Number of Options	Exercise Price/Share	Months remaining
10-Nov-2009	Consultant	11-Oct-2012	750,000	\$ 0.15	31
10-Nov-2009	Officers	11-Oct-2012	100,000	0.15	31
26-Feb-2008	Directors & Officers	26-Feb-2013	100,000	0.15	35
10-Oct-2007	Directors & Officers	10-Oct-2012	400,000	0.15	31
10-Oct-2007	Consultant	10-Oct-2012	700,000	0.15	31
Total options outstanding & weighted average exercise price			2,050,000	\$ 0.15	31

All options were amended in April 2009 to \$0.15. There were 100,000 options granted in the quarter at \$0.15 per option, 360,000 options naturally expired at \$0.15 per option and 470,000 options were cancelled at \$0.15 per option.

Share Purchase Warrants Outstanding as at February 28, 2010:

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

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

Convertible Debentures Outstanding as at February 28, 2010:

Date of Grant	Due Date	Value of Debentures	Number of Common Shares on Conversion	Exercise Price/Share
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9-Jun-09	9-Jun -11	\$ 673,773	7,486,366	\$ 0.09
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11. FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Convertible Debenture

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

Accounts Receivable

With the exception of the Kuwaiti contract the Corporation has dealt only with North American corporations in terms of sales and thus has not been exposed to the risk of dealing with overseas entities. EDC insurance coverage for \$402,900 was obtained for the Kuwaiti sale. The Corporation uses Dunn and Bradstreet for credit reference checks in setting up new customer accounts and in reviewing accounts. The Corporation deals with between 125 and 175 customers a quarter and 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 effective in ensuring that all accounts receivable are collected. Management will look at putting further internal control measures in place to mitigate this risk as sales revenue increases, if necessary. As the Corporation or its subsidiary, CFR Chemicals Inc. begin to generate more sales internationally, both an irrevocable letter of credit or export accounts receivable insurance will be reviewed to determine the appropriate process be secured prior to a sale being concluded.

Foreign Currency Risk

The Corporation is exposed to currency risks as a result of sales and purchases in U.S. currency. Sales to the United States are less than US\$50,000 for the period. Purchases of inventory in U.S. currency have been approximately \$8.7 million for the period. Payments in U.S. currency during the period were \$8.9 million. 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 \$26,270. Year to date the company has recognized a currency gain of \$92,554 on U.S. dollar purchases of \$12.109 million. For the year prior the Corporation recognized a currency gain of \$135,983 on U.S. dollar purchases of \$10.723 million and U.S. dollar payments of \$10.078 million.

Risk Factors

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

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

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

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

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

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

Conflicts of Interest - Directors and officers of the Issuer may serve as directors of, or have shareholdings in, other reporting companies. To the extent that such other companies may participate in ventures in which the Issuer may participate, the directors or officers of the Issuer may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The laws of Canada, applicable to the Issuer, provide that the directors of the Issuer must act honestly, in good faith and in the best interests of the Issuer in resolving any conflicts that may arise, and all directors of the Issuer are aware of these fiduciary responsibilities. In determining whether or not the Issuer will participate in a

particular venture, the directors will primarily consider the degree of risk to which the Issuer may be exposed, its financial position at that time and, depending on the magnitude of the venture and the absence of any disinterested directors, whether or not to subject any ventures in question to the shareholders of the Issuer for their approval. There are currently no such conflicts of interest as described above.

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

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

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

12. SUBSEQUENT EVENTS

On December 31, 2009 the company fell into default causing the breaches mentioned in the opening paragraphs and section 2(f) state that the long-term bank indebtedness has been reclassified to short-term due to the breach in the covenant and the Bank of Montreal now has the option to call the loan for payment. As well, the long-term debt to No 321 Cathedral Ventures has been reclassified to short-term debt. As of the end of March, the Corporation is very close to curing the breach with Bank of Montreal covenants and expects to achieve this within the third-quarter.