Diaz Resources Ltd.

THIRD QUARTER REPORT 2002

For the nine months ended September 30, 2002

Corporate Profile

Diaz Resources Ltd. is an oil and gas exploration and development company, with land holdings and production in Canada and the United States. The Company's principal business is the exploration for and marketing of natural gas with the majority of the Company's revenue being generated from gas production in Alberta and Texas.

The Company currently focuses its exploration activities on shallow gas reservoirs in southern Alberta, combining low cost drilling and low risk exploration with an excellent natural gas infrastructure to take advantage of high commodity prices.

Corporate Summary

For the Nine Months ended September 30

(Thousands, except per share amounts)	**2002**	2001
Financial		
Total revenue	**$ 5,089**	$ 9,064
Cash flow	**$ 2,419**	$ 5,915
Cash flow per share	**$ 0.05**	$ 0.16
Net earnings for the period	**$ 0**	$ 2,297
Earnings per share	**$ 0.00**	$ 0.06
Capital additions	**$ 4,150**	$ 9,966
Dispositions	**$ 647**	$ 491
Net debt	**$ 10,908**	$ 9,746
Total assets	**$ 30,842**	$ 30,796
Operations		
Production		
Gas (mmcf/d)	**4.8**	6.1
Oil (bbls/d)	**145**	203
Boe/d (6mcf = 1bbl)	**948**	1,212
Product prices		
Gas ($/mcf)	**$ 3.67**	$ 5.76
Oil ($/bbl)	**$ 34.64**	$ 36.06
Total shares outstanding, at period end	**41,831**	37,909

To the Shareholders

Diaz's financial results, for the nine months ended September 30, 2002, were negatively impacted by significantly lower gas prices, compared with those prevailing one year earlier. Diaz continued to reduce its capital expenditures to react to lower cash flows and promoted a significant portion of its higher risk exploration projects to industry partners.

The rebound in natural gas prices, during the third quarter of 2002, will greatly aid Diaz and result in steadily improving cash flows over the next year.

The Economy and Energy Commodity Prices

The North American economy continues to slowly improve and increased economic activity, during 2003, should lead to higher energy demand.

The effect of discipline problems with OPEC quotas was offset by the effect of Middle East unrest and an increase in oil demand, which resulted in oil prices stabilizing in the $25 U.S. per barrel range.

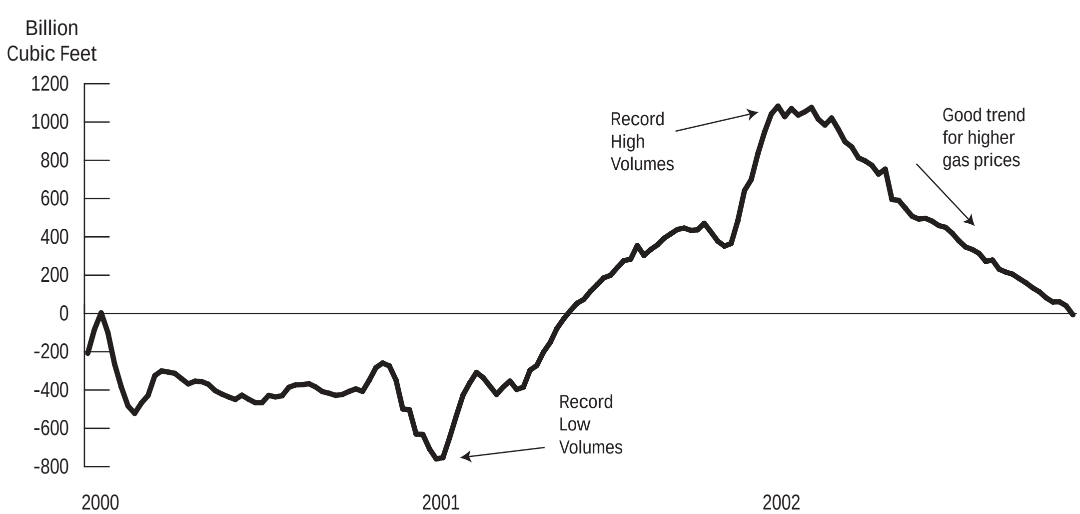
Natural gas has exhibited a solely North American supply and demand cycle, whereby low U.S. prices, prevailing for the first nine months of 2002, resulted in a collapse in drilling for natural gas. This has led to an almost year long downward trend in the U.S. storage volumes, with mid-November volumes being lower than those for the prior year.

The combination of reduced gas deliverability, early winter weather and a moderate increase in demand due to North American economic growth, has resulted in a significant price recovery from the lows reached in July 2002. Hence, Canadian prices have increased from the $2.00 per mcf level in July, to current prices in excess of $5.00 per mcf.

Diaz will benefit from this increase by reporting improved fourth quarter results, and by hedging a portion of its natural gas production through 2003.

While high gas prices have already resulted in a modest increase in U.S. gas targeted drilling levels, the inherent lag time in building supplies should lead to higher prices for the next 12 months and improve Diaz's financial results during that period.

Annual Change in U.S. Gas Storage



Financial

Financial results for the quarter continued to be negatively impacted by lower prices and declining production volumes.

Revenue for the nine months ended September 30, 2002 totaled $5.1 million compared with $9.1 million one year earlier.

Cash flow for the period decreased to $2.4 million, or $0.05 per share compared with $5.9 million, or $0.16 per share in 2001. Diaz reported no earnings for the nine months ended September 30, 2002 compared with earnings of $2.3 million in 2001.

Capital expenditures totaled $4.2 million compared with $10.0 million in 2001. Capital expenditures were financed out of cash flow totaling $2.4 million, asset disposition of $0.6 million and an increase in debt of $1.2 million.

Production

For the third quarter of 2002, natural gas production averaged 4.5 mmcf/d compared with 6.2 mmcf/d in 2001. Oil production averaged 146 barrels per day compared with 202 barrels per day in 2001.

Exploration and Development

During the third quarter, the Company's development program continued to be successful, with three wells at Enchant and Retlaw being successfully recompleted. These wells are currently on stream and have added 550 mcf/d, net to Diaz.

During the first nine months of 2002, the Company participated in drilling eight wells and re-entering a further eight wells, resulting in nine new gas wells and seven dry holes. In addition, Diaz continued to acquire acreage and seismic on new prospects in western Saskatchewan, east-central Alberta and in Texas.

The Company's higher impact exploration wells at Brock and Sedalia were unsuccessful and the Company's deep gas test at Harmattan is currently being evaluated.

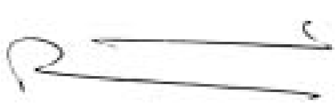
In Texas, Diaz will be carried for an approximate 4.0 percent interest in the initial well on the Mustang Creek prospect, which is anticipated to commence in early December 2002. This prospect, which targets the same Wilcox formation and is along trend with Diaz's Provident City pool, has reserves in excess of 75 bcf. If successful, the prospect would greatly enhance Diaz's U.S. production base and asset value.

Outlook

Diaz's ongoing business plan is based on the view that gas prices will continue to improve through the balance of 2002 and through 2003.

The Company's cautious approach to capital reinvestment in the past year will now be reversed and a number of the high quality prospects in the Company's inventory will be evaluated, prior to year end. Early success in this program should result in the resumption of the Company's growth.

On behalf of the Board,



R.W. Lamond
President

November 21, 2002

Management's Discussion and Analysis

The Management's Discussion and Analysis should be read in conjunction with the interim consolidated financial statements. The analysis compares the results for the nine months ended September 30, 2002, with the same period in 2001.

	Three Months Ended September 30		Nine Months Ended September 30	
Production	**2002**	2001	**2002**	2001
Gas				
Enchant	**1.0**	1.4	**1.0**	1.1
Carmangay	**0.8**	1.5	**0.8**	1.7
Retlaw/Little Bow	**0.9**	1.0	**0.8**	0.8
Provident City (USA)	**0.6**	0.9	**0.7**	1.0
Iron Springs	**0.4**	0.6	**0.5**	0.6
Therien	**0.3**	0.3	**0.3**	0.3
Bindloss	**0.1**	–	**0.2**	–
Other	**0.4**	0.5	**0.5**	0.6
Total Gas (mmcf/d)	**4.5**	6.2	**4.8**	6.1
Oil & Liquids				
Parkman	**36**	48	**40**	58
Neutral Hills	**28**	37	**30**	38
Arcola	**17**	23	**20**	25
Red Earth	**17**	21	**17**	22
Other	**48**	73	**38**	60
Total Oil & Liquids (bbls/d)	**146**	202	**145**	203
Total Boe/d (6mcf = 1bbl)	**895**	1,232	**948**	1,212

For the nine months ended September 30, 2002, Diaz's natural gas production averaged 4.8 mmcf/d, 21% less than the same period in 2001.

Natural gas prices in the summer months were significantly lower than the anticipated prices in the winter heating season and the management decided to maximize the Company's return on gas production by delaying the tie-ins to benefit from this difference. Production was placed back on stream in September and new wells were connected in the fourth quarter. Diaz anticipates an increase in its gas production to average 5.0 mmcf/d during the fourth quarter.

Diaz has entered into an agreement to sell its interest in the Arcola oil production for $380,000, and as a result, its oil production will decline by 17 bbls/d in the fourth quarter.

	Three Months Ended September 30		Nine Months Ended September 30	
Product Prices	**2002**	2001	**2002**	2001
Gas ($/mcf)	**$ 3.80**	$ 3.56	**$ 3.67**	$ 5.76
Oil ($/bbl)	**$ 38.89**	$ 34.74	**$ 34.64**	$ 36.06
Boe ($/bbl)	**$ 25.42**	$ 23.56	**$ 23.94**	$ 34.79

Commodity prices for the nine months ended September 30, 2002 were significantly lower than prices for the same period in 2001. However, during the third quarter, gas prices recovered and Diaz averaged $3.80 per mcf for the third quarter of 2002 compared with $3.56 per mcf in 2001.

Diaz believes this trend will continue throughout the winter and has taken advantage of higher future prices and hedged its future gas price on approximately 3 mmcf/d of production at prices between $4.73 and $6.42 per mcf, until November 1, 2003.

Revenue from Oil and Gas Production	**Three Months Ended September 30**		**Nine Months Ended September 30**	
(Thousands)	**2002**	2001	**2002**	2001
Natural gas	**$ 1,573**	$ 2,025	**$ 4,831**	$ 9,521
Oil	**519**	645	**1,366**	1,994
Other	**–**	1	**30**	45
Total revenue	**$ 2,092**	$ 2,671	**$ 6,227**	$ 11,560

Royalties	**Three Months Ended September 30**		**Nine Months Ended September 30**	
(Thousands, except percentage amounts)	**2002**	2001	**2002**	2001
Crown	**$ 160**	$ 273	**$ 561**	$ 1,596
Freehold	**216**	243	**655**	1,211
Alberta Royalty Tax Credit	**(29)**	(31)	**(78)**	(311)
Royalties, net of ARTC	**$ 347**	$ 485	**$ 1,138**	$ 2,496
Royalty as a percentage of revenue	**16.6%**	18.2%	**18.3%**	21.6%

Royalties for the nine months ended September 30, 2002 declined to $1.1 million, or a net royalty rate of 18.3% compared with $2.5 million, or 21.6%. The decline in total net royalties was due to lower revenue. Lower royalty rates reflect hedge contracts, which are out of the money in 2001 and in the money in 2002.

Operating Expense	**Three Months Ended September 30**		**Nine Months Ended September 30**	
(Thousands, except per boe amounts)	**2002**	2001	**2002**	2001
Operating expense	**$ 525**	$ 633	**$ 1,453**	$ 1,693
per boe	**$ 6.38**	$ 5.59	**$ 5.61**	$ 5.12

Operating expense decreased in total but increased per boe. This increase per boe is primarily due to lower production levels.

Overhead	**Three Months Ended September 30**		**Nine Months Ended September 30**	
(Thousands, except per boe amounts)	**2002**	2001	**2002**	2001
Overhead	**$ 294**	$ 454	**$ 970**	$ 1,326
Capitalized	**(46)**	(135)	**(141)**	(315)
Net overhead	**$ 248**	$ 319	**$ 829**	$ 1,011
per boe	**$ 2.94**	$ 2.81	**$ 3.20**	$ 3.05

Interest Expense	**Three Months Ended September 30**		**Nine Months Ended September 30**	
(Thousands, except per boe and interest rate amounts)	**2002**	2001	**2002**	2001
Average bank debt	**$ 9,711**	$ 8,623	**$ 9,114**	$ 7,518
Interest expense	**$ 126**	$ 158	**$ 345**	$ 417
per boe	**$ 1.53**	$ 1.39	**$ 1.33**	$ 1.26
Average interest rate	**5.21%**	6.63%	**4.75%**	7.11%

Depletion, Depreciation & Amortization	**Three Months Ended September 30**		**Nine Months Ended September 30**	
(Thousands, except per boe amounts)	**2002**	2001	**2002**	2001
Depletion expense	**$ 716**	$ 702	**$ 2,213**	$ 2,055
Depreciation expense	**21**	23	**63**	68
Site restoration expense	**23**	23	**74**	73
Amortization of deferred credit	**4**	3	**(15)**	(91)
Net depletion and depreciation	**$ 764**	$ 751	**$ 2,335**	$ 2,105
per boe	**$ 9.27**	$ 6.61	**$ 9.02**	$ 6.35

Liquidity and Capital Resources

Diaz completed the nine months ended September 30, 2002 with a net debt of $10.9 million. The Company has a credit facility of $11.0 million.

Due to a change in Canadian accounting principles effective January 1, 2002, all credit facilities that are revolving in nature must be disclosed as "current portion of long-term debt". Diaz has complied with the change and restated its December 31 balance sheet to be comparable.

The Company's capital expenditure budget for 2003 will be funded from cash flow, the proceeds of asset disposition and new financing.

Issuer Bid

During the nine months ended September 30, 2002, Diaz repurchased 44,000 Class A Subordinate Voting Shares and 5,500 Multiple Voting Shares at an average price of $0.31 per share.

On August 2, 2002, Diaz filed a Notice of Intention to continue its normal course issuer bid. Pursuant to the notice, Diaz may purchase up to 1,778,000 Class A Shares and 300,000 Class B Shares through the facilities of the Toronto Stock Exchange. The Bid expires on August 1, 2003.

Consolidated Balance Sheet

(unaudited) *(Thousands)*	**September 30 2002**	December 31 2001
ASSETS		
Current Assets		
Cash	**$ 180**	$ 176
Accounts receivable	**1,017**	2,137
Prepaid expense	**156**	128
	1,353	2,441
Future tax asset	**934**	1,027
Property, plant and equipment	**39,437**	35,933
Accumulated depletion and depreciation	**(10,882)**	(8,605)
	28,555	27,328
Total Assets	**$ 30,842**	$ 30,796
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 1,664**	$ 3,818
Bank debt (note 2)	**10,597**	8,369
	12,261	12,187
Other Liabilities		
Future income tax liability	**4,072**	4,089
Deferred credits	**205**	222
Future site restoration	**452**	430
Total Other Liabilities	**4,729**	4,741
SHAREHOLDERS' EQUITY		
Share capital	**10,021**	10,037
Retained earnings	**3,831**	3,831
	13,852	13,868
Total Liabilities and Shareholders' Equity	**$ 30,842**	$ 30,796

Approved by the Board:

Director

Director

Consolidated Statement of Operations and Retained Earnings

(unaudited) *(Thousands, except per share amounts)*	Three Months Ended September 30 **2002**	 2001	Nine Months Ended September 30 **2002**	 2001
Revenue				
Production	**$ 2,092**	$ 2,670	**$ 6,197**	$ 11,515
Royalties	**(376)**	(516)	**(1,216)**	(2,807)
Alberta Royalty Tax Credit	**29**	31	**78**	311
Interest and other income	**–**	1	**30**	45
	1,745	2,186	**5,089**	9,064
Expenses				
Operating	**525**	633	**1,453**	1,693
General and administrative	**248**	365	**829**	1,069
Interest	**126**	158	**345**	417
Foreign exchange gain	**(13)**	(46)	**(5)**	(58)
Depletion and depreciation	**763**	751	**2,335**	2,105
	1,649	1,861	**4,957**	5,226
Earnings before income tax	**96**	325	**132**	3,838
Income tax				
Current	**8**	28	**48**	28
Future	**9**	258	**84**	1,513
Total income tax	**17**	286	**132**	1,541
Net earnings for the period	**79**	39	**0**	2,297
Retained earnings, beginning of period	**3,752**	3,447	**3,831**	1,189
Retained earnings, end of period	**$ 3,831**	$ 3,486	**$ 3,831**	$ 3,486
Earnings per share	**$ 0.00**	$ 0.00	**$ 0.00**	$ 0.06

Consolidated Statement of Cash Flows

(unaudited) *(Thousands, except per share amounts)*	Three Months Ended September 30 **2002**	 2001	Nine Months Ended September 30 **2002**	 2001
Cash provided by (used for):				
Operating Activities				
Earnings for the period	**$ 79**	$ 39	**$ –**	$ 2,297
Non-cash items:				
Depreciation and depletion	**763**	751	**2,335**	2,105
Future taxes	**9**	258	**84**	1,513
Cash flow from operations	**851**	1,048	**2,419**	5,915
Change in non-cash working capital	**662**	(1,762)	**1,178**	(1,859)
	1,513	(714)	**3,597**	4,056
Investing Activities				
Property, plant and equipment	**(1,127)**	(2,577)	**(4,150)**	(9,966)
Disposition of property, plant and equipment	**145**	–	**647**	491
Site restoration	**(5)**	(9)	**(53)**	(11)
Change in non-cash working capital	**(358)**	1,479	**(2,250)**	(24)
	(1,345)	(1,107)	**(5,806)**	(9,510)
Financing Activities				
Increase in bank debt	**(12)**	1,596	**2,228**	5,606
Class A Subordinate Voting Shares Issued on exercise of options	**–**	42	**–**	42
Class A Subordinate Voting Shares Repurchased for cancellation	**(5)**	(6)	**(13)**	(14)
Class B Multiple Voting Shares Repurchased for cancellation	**(1)**	–	**(2)**	(18)
	(18)	1,632	**2,213**	5,616
Increase (decrease) in cash	**150**	(189)	**4**	162
Cash, beginning of period	**30**	365	**176**	14
Cash, end of period	**$ 180**	$ 176	**$ 180**	$ 176
Cash flow per share, basic and diluted	**$ 0.02**	$ 0.03	**$ 0.05**	$ 0.16
Supplementary Information Regarding Cash Payments:				
Interest paid during the period	**$ 126**	$ –	**$ 345**	$ –
Taxes paid during the period	**$ –**	$ –	**$ 76**	$ –

Notes to the Interim Financial Statements

For the Nine Months Ended September 30, 2002

1. Accounting Policies

The interim consolidated financial statements of Diaz Resources Ltd. have bee prepared in accordance with accounting principles generally accepted in Canada. Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect Diaz's financial position or results of operations. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The reader should refer to the annual consolidated financial statements of Diaz at December 31, 2001.

2. Long-term Debt

Due to a change in Canadian accounting principles, effective January 1, 2002, all credit facilities that are revolving, in nature, must be disclosed as "current portion of long-term debt." Diaz utilizes a secured revolving production loan that is payable on demand and is subject to an annual review and, therefore, is considered "current," for disclosure purposes and has been disclosed under current liabilities. For comparative purposes, the long-term debt outstanding at December 31, 2001 has been reclassified as well.

3. Share Capital

	September 30, 2002		
(Thousands)	**Shares**		**Amount**
Class A Subordinate Voting Shares			
Balance at December 31, 2001	35,681	$	8,186
Repurchased for cancellation	(44)	$	(14)
Balance at September 30, 2002	35,637	$	8,172
Class B Multiple Voting Shares			
Balance at December 31, 2001	6,200		1,851
Repurchased for cancellation	(6)		(2)
Balance at September 30, 2002	6,194		1,849
Total Shares Outstanding, September 30, 2002	41,831	$	10,021

Voting Rights

Class A Subordinate Voting Shares carry voting rights of one vote per share; Class B Multiple Voting Shares carry voting rights of 25 votes per share.

Restrictions on Issuance

Additional Class B Shares may only be issued on conversion of Class A Shares in the event of a take-over bid, which has been accepted by holders of 50.1% of the Class B Shares. Class A Shares may be converted into Class B Shares on the basis of one Class B Share for each Class A Share converted.

Conversion Provisions

In the event of a take-over bid, which has been accepted by holders of 50.1% of the Class B Shares, Class A Shares may be converted into Class B Shares on the basis of one Class B Share for each Class A Share converted.

Stock Option Plan

As at September 30, 2002, there are a total of 2,610,000 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.34 per share. A total of 2,533,300 options with a weighted average exercise price of $0.34 are exercisable at the end of the period.

The Company accounts for its stock based compensation plan using the intrinsic value method, whereby no compensation costs have been recognized in the financial statements for share options granted to employees and directors. As now required by Canadian generally accepted accounting principles, the impact on compensation costs of using the fair value method, whereby compensations costs have been recorded in net earnings, must be disclosed. If the fair value method had been used for options granted subsequent to January 1, 2002, the Company's compensation costs for the period would have been increased by $20,000 and the loss for the period would have been $20,000. This would have no material affect on the reported loss per share for the period.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	3.64%
Expected lives (years)	3.00
Expected volatility	0.55
Dividends per share	–

4. Financial Instruments

The Company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. dollar exchange rates. The Company, when appropriate, utilized financial instruments to manage its exposure to these risks.

Natural gas

At September 30, 2002, Diaz had the following outstanding hedge obligations:

Fixed Price Hedge

Volume	Fixed Price ($/GJ)	Time Period for Hedge
1,500 GJ/day	$ 3.58	Oct. 1, 2002 to Oct. 31, 2002
500 GJ/day	$ 3.68	Oct. 1, 2002 to Oct. 31, 2002
1,000 GJ/day	$ 4.27	Oct. 1, 2002 to Oct. 31, 2002
500 GJ/day	$ 4.30	Oct. 1, 2002 to Oct. 31, 2002
1,000 GJ/day	$ 4.96	Nov. 1, 2002 to Oct. 31, 2003

Costless Collar

Volume	Floor Price ($/GJ)	Ceiling Price ($/GJ)	Time Period for Hedge
1,000 GJ/day	$ 4.25	$ 6.50	Nov. 1, 2002 to Oct. 31, 2003
1,000 GJ/day	$ 4.25	$ 6.80	Nov. 1, 2002 to Mar. 31, 2003
1,000 GJ/day	$ 4.25	$ 6.43	Apr. 1, 2003 to Oct. 31, 2003

5. Segmented Information

The Company operates in the oil and gas industry within two geographical segments: Canada and the United States. The Company's only industry segment is the exploration for and the development of oil, natural gas and related products.

	Three Months Ended September 30		Nine Months Ended September 30	
(Thousands)	**2002**	2001	**2002**	2001
Revenue				
Canada	**$ 1,558**	$ 1,953	**$ 4,438**	$ 7,817
United States	**186**	233	**650**	1,247
	$ 1,744	$ 2,186	**$ 5,088**	$ 9,064
Cash Flow from Operations				
Canada	**$ 683**	$ 782	**$ 1,923**	$ 4,662
United States	**168**	266	**496**	1,253
	$ 851	$ 1,048	**$ 2,419**	$ 5,915
Depletion and Depreciation				
Canada	**$ 719**	$ 694	**$ 2,183**	$ 2,030
United States	**26**	57	**152**	166
	$ 745	$ 751	**$ 2,335**	$ 2,196
Net Earnings (Loss)				
Canada	**$ (37)**	$ (169)	**$ (244)**	$ 1,514
United States	**116**	208	**244**	783
	$ 79	$ 39	**$ –**	$ 2,297
Additions to Property, Plant & Equipment				
Canada	**$ 1,104**	$ 2,381	**$ 3,875**	$ 9,396
United States	**23**	196	**275**	570
	$ 1,127	$ 2,577	**$ 4,150**	$ 9,966
Asset Disposition				
Canada	**$ 19**	$ –	**$ 295**	$ 491
United States	**126**	–	**352**	–
	$ 145	$ –	**$ 647**	$ 491
Identifiable Assets (at end of period)				
Canada	**$ 28,529**	$ 27,279	**$ 28,529**	$ 27,279
United States	**2,321**	2,917	**2,321**	2,917
	$ 30,850	$ 30,196	**$ 30,850**	$ 30,196

Corporate Information

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Executive Vice President and CFO

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Vice President, Operations

C.S. Cohen
Corporate Secretary

Subsidiaries

Diaz Resources, Inc.

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

Stock Echange Listing

Toronto Stock Exchange
Trading Symbols:
Subordinate Voting Shares: DZR.a
Multiple Voting Shares: DZR.b