Diaz Resources Ltd.

FIRST QUARTER REPORT 2002

For the three months ended March 31, 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 increasing natural gas prices.

Summary of Operations

For the Three Months ended March 31

(Thousands, except per share amounts)	**2002**	2001
Financial		
Total revenue	**$ 1,526**	$ 3,950
Cash flow	**$ 633**	$ 3,035
Cash flow per share (diluted)	**$ 0.02**	$ 0.08
Earnings (loss)	**$ (78)**	$ 1,503
Earnings (loss) per share	**$ (0.00)**	$ 0.04
Capital additions	**$ 1,343**	$ 4,195
Net debt	**$ (10,471)**	$ (8,314)
Total assets	**$ 30,475**	$ 26,465
Operations		
Production		
Gas (mmcf/d)	**5.0**	6.2
Oil (bbls/d)	**149**	198
Boe/d (6mcf = 1bbl)	**988**	1,226
Product prices		
Gas per mcf	**$ 3.34**	$ 8.19
Oil per bbl	**$ 29.10**	$ 37.40
Total shares outstanding, at period end	**41,860**	37,760

To the Shareholders

During the first quarter of 2002, Diaz's financial results were negatively impacted, as a result of lower production volumes coupled with significantly reduced commodity prices, compared with those prevailing in early 2001.

The management of Diaz recognized the change in the phase in the commodity cycle in mid-2001 and shifted the Company's investment focus to the acquisition of new prospects, seismic and undeveloped acreage, while reducing drilling and facility costs to minimize the increase in debt levels.

During the quarter, Diaz continued to slow its exploration and development activities and focused on the acquisition of new acreage, primarily targeting higher impact prospects in east central Alberta.

Diaz is confident, as a result of lower North American natural gas deliverability caused by reduced drilling in 2001, that gas prices, which turned up in mid-March, will continue this trend and result in steadily improving quarterly results for the balance of 2002.

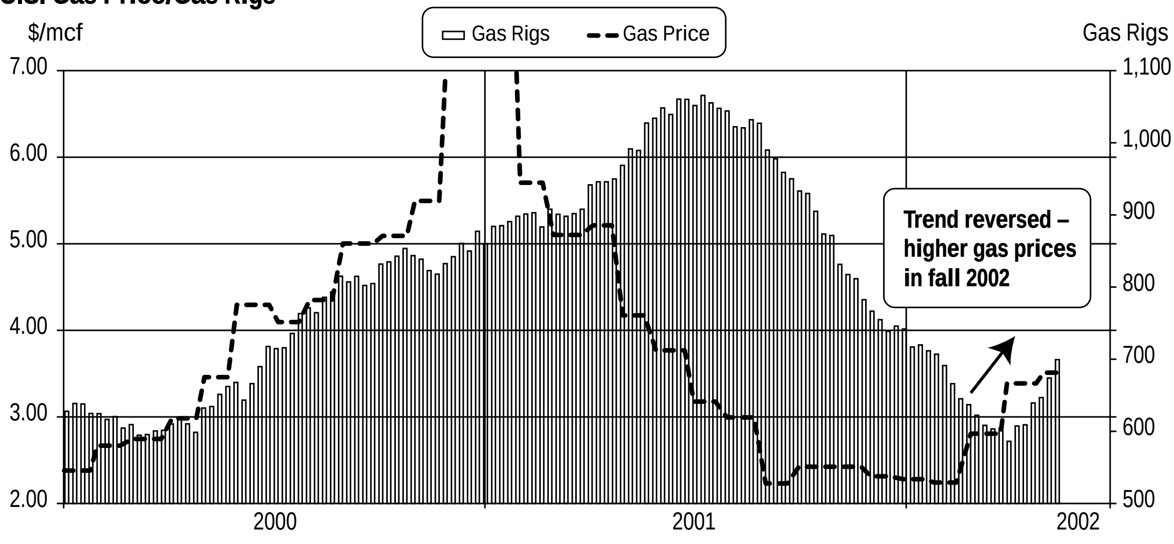
The Economy and Energy Commodity Prices

The North American economy appears to be steadily improving and increased economic activity should lead to higher energy prices.

Continued OPEC discipline, coupled with modest non-OPEC cutbacks, resulted in oil prices recovering to a level in excess of U.S. $25.00 per barrel, at the end of the quarter.

Natural gas has exhibited a solely North American supply and demand cycle, whereby low U.S. prices prevailing for the past six months resulted in a collapse in drilling for natural gas. This decline of exploration activity has reduced current gas deliverability and has now led to higher prices sustained by a perception of a tighter supply situation by the end of 2002.

U.S. Gas Price/Gas Rigs



While high gas prices have already resulted in an increase in U.S. "gas rig" 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.

Financial

Financial results for the quarter were significantly impacted by a major reduction in year-over-year gas prices, with the Company receiving an average of $3.34 per mcf in 2002, compared with $8.19 per mcf in the prior year, a 60% decline.

Production revenue for the quarter ended March 31, 2002 totalled $1.9 million, compared with $5.2 million one year earlier. Lower gas prices, together with lower natural gas and oil production, contributed to the 63% decrease in revenue.

Cash flow for the period decreased to $0.6 million, or $0.02 per share, compared with $3.0 million, or $0.08 per share for the same period in 2001. Diaz reported a loss of $78,000 for the three months ended March 31, 2002, compared with earnings of $1.5 million in 2001.

Capital expenditures totalled $ 1.3 million, compared with $ 4.2 million in 2001.

Production

For the first quarter of 2002, natural gas production decreased to an average of 5.0 mmcf/d, compared with 6.2 mmcf/d in 2001. Oil production totalled 149 barrels per day, compared with 198 barrels per day for the same period in 2001.

In aggregate, for the quarter, the Company produced 988 bopd, compared with 1,226 bopd for the same quarter in 2001.

Exploration and Development

While Diaz has developed a large number of new, high impact prospects and reported, at year end, net undeveloped land holdings of over 98,000 acres, the Company’s ongoing business plan requires that capital spending on new projects be matched to cash flow as closely as possible. As a result, activity levels were much lower than last year but should steadily increase during the balance of 2002, with the continuation of higher gas prices.

During the first quarter of 2002, Diaz drilled or recompleted three gas wells. In addition, the Company acquired interests in lands on new prospects in east central Alberta and western Saskatchewan.

At present, Diaz is embarking on an exploration program with much higher potential than the Company was exposed to during 2001. In Alberta, the Company has developed and farmed out the majority of the risk expenditures in a deep test in the Harmattan area, in which Diaz will, at moderate cost, retain a 28% interest in a multi target Cretaceous prospect. In eastern Alberta, the Company has developed a large acreage holding on a medium depth gas trend, on which the first well should be commenced by mid June. Success will lead to a multi well program on Diaz owned lands.

In Saskatchewan, at Brock, Diaz has assembled an acreage block to drill a high risk, high impact Glauconite oil prospect on a seismically controlled structure. Drilling should commence by late June.

Finally, in Texas, Diaz is completing an acreage acquisition program on three high impact Wilcox prospects on trend with a very active exploration play. With current higher gas prices, Diaz should be able to farm out a portion of these prospects and retain a meaningful interest.

Outlook

Diaz's ongoing business plan is based on the assumption that gas prices will steadily improve throughout the balance of 2002.

The Company's cautious approach to capital reinvestment in the past six months will now be reversed and the high quality prospects in the Company's inventory will be evaluated, as soon as practicable. Early success in this program should result in the resumption of the Company's growth.

On behalf of the Board,

R.W. Lamond
President

May 23, 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 three months ended March 31, 2002, with the same period in 2001.

	Three Months Ended March 31	
Production	**2002**	2001
Gas (mmcf/d)		
Carmangay	**0.99**	2.11
Enchant	**0.99**	1.04
Provident City (US)	**0.80**	1.07
Retlaw / Little Bow	**0.80**	0.64
Iron Springs	**0.57**	0.49
Therien	**0.30**	0.39
Bindloss	**0.12**	–
Other	**0.46**	0.43
Total Gas	**5.03**	6.17
Oil & Liquids (bbls/d)		
Parkman	**47**	69
Neutral Hills	**33**	40
Arcola	**22**	27
Red Earth	**18**	22
Other	**29**	40
Total Oil & Liquids	**149**	198
Total Boe/d (6mcf = 1bbl)	**988**	1,226

Natural gas production for the first quarter of 2002 averaged 5.0 mmcf per day, compared with 6.2 mmcf per day during the first quarter of 2001. The sharp decline in new gas production in the Carmangay area was anticipated and production has now stabilized in the 1.0 mmcf per day range.

Diaz was reluctant to tie-in or drill new gas wells during the last half of 2001 due to the falling gas price and therefore declining production was not replaced. With rising gas prices during the first quarter of 2002, Diaz plans to recommence completion work and it is anticipated that 5 (2.0 net) gas wells will be connected to pipelines in the second quarter of 2002.

Price	Three Months Ended March 31 2002	2001
Gas ($/mcf)	**$ 3.34**	$ 8.19
Oil ($/bbl)	**$ 29.10**	$ 37.40
Boe ($/bbl)	**$ 21.39**	$ 47.26

Oil and natural gas prices were significantly lower for the first quarter of 2002, compared with the first quarter of 2001, resulting in lower revenues and cash flow. However, both oil and gas prices are now trending higher. Natural gas prices were 16% higher in the first quarter of 2002, than the average price received in the last quarter of 2001, with oil prices being 20% higher. In the second quarter of 2002, natural gas prices have continued their upward movement.

Revenue *(Thousands)*	Three Months Ended March 31 2002	2001
Natural gas	**$ 1,511**	$ 4,548
Oil and natural gas liquids	**390**	665
Other	**13**	24
Total revenue	**$ 1,914**	$ 5,237

Lower gas and oil prices, combined with lower natural gas production, resulted in a 63% decrease in gross revenue from oil and natural gas sales.

Royalties *(Thousands, except per boe and percentage amounts)*	Three Months Ended March 31 2002	2001
Crown	**$ 142**	$ 855
Freehold	**270**	557
Alberta Royalty Tax Credit	**(23)**	(125)
Total royalties, net of ARTC	**$ 389**	$ 1,287
Royalties per boe	**$ 4.38**	$ 11.67
Royalties as a percentage of revenue	**20.3%**	24.6%

Operating Expense *(Thousands, except per boe amounts)*	Three Months Ended March 31 2002	2001
Operating expense	**$ 491**	$ 496
per boe	**$ 5.52**	$ 4.50

Overhead Costs	**Three Months Ended March 31**	
(Thousands, except per boe amounts)	**2002**	2001
Administration cost	**$ 358**	$ 378
Capitalized overhead	**(53)**	(85)
Net overhead	**$ 305**	$ 293
per boe	**$ 3.37**	$ 2.66

Interest Expense	**Three Months Ended March 31**	
(Thousands, except per boe and percentage amounts)	**2002**	2001
Average bank debt	**$ 8,903**	$ 5,393
Interest expense	**101**	107
Average interest rate	**4.5%**	7.9%
Interest expense per boe	**$ 1.14**	$ 0.97

Interest expense decreased to $101,000 during 2002, primarily due to lower interest rates.

Depletion, Depreciation & Amortization	**Three Months Ended March 31**	
(Thousands, except per boe amounts)	**2002**	2001
Depletion expense	**$ 738**	$ 669
Depreciation expense	**$ 21**	$ 22
Site restoration	**$ 26**	$ 26
Amortization of deferred credit	**$ (19)**	$ (71)
Net depletion and depreciation	**$ 766**	$ 646
per boe	**$ 8.53**	$ 5.87

Depletion expense increased to $0.8 million during 2002, as a result of a higher depletion rate during the period.

Liquidity and Capital Resources

Diaz completed the first quarter of 2002 with a working capital deficiency of $10.4 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 has a credit facility of $11.0 million, which is subject to annual review by May 31, 2002.

The Company's capital expenditure budget for 2002 will be funded from cash flow and new equity financing.

Issuer Bid

During the first quarter of 2002, Diaz repurchased 20,000 Class A Subordinate Voting Shares and 500 Class B Multiple Voting Shares at an average price of $0.32 per share.

Consolidated Balance Sheet

(unaudited)
(Thousands)

	March 31 2002	December 31 2001
ASSETS		
Current Assets		
Cash	**$ 107**	$ 176
Accounts receivable	**1,320**	2,137
Prepaid expense	**131**	128
	1,558	2,441
Future tax asset	**1,004**	1,027
Property, plant and equipment	**37,277**	35,933
Accumulated depletion and depreciation	**(9,364)**	(8,605)
	27,913	27,328
	$ 30,475	$ 30,796
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 2,271**	$ 3,818
Current portion of long-term debt (note 2)	**9,758**	8,369
	12,029	12,187
Other Liabilities		
Future income tax liability	**4,004**	4,089
Deferred credits	**203**	222
Future site restoration costs	**456**	430
Total Other Liabilities	**4,663**	4,741
	16,692	16,928
SHAREHOLDERS' EQUITY		
Share Capital (note 3)	**10,030**	10,037
Retained Earnings	**3,753**	3,831
	13,783	13,868
	$ 30,475	$ 30,796

Approved by the Board:

Director

Director

Consolidated Statement of Operations and Retained Earnings

(unaudited)

(Thousands, except per share amounts)

Three Months Ended March 31	**2002**	2001
Revenue		
Production	**$ 1,902**	$ 5,214
Royalties	**(412)**	(1,412)
Alberta Royalty Tax Credit	**23**	125
Interest and other income	**13**	23
	1,526	3,950
Expenses		
Operating	**491**	496
General and administrative	**305**	293
Interest	**101**	107
Foreign exchange gain	**(4)**	(81)
Depletion and depreciation	**766**	646
	1,659	1,461
Earnings (loss) before income tax	**(133)**	2,489
Income tax expense		
Current	**–**	(100)
Future	**55**	(886)
Total income tax	**55**	(986)
Earnings (loss) for the period	**(78)**	1,503
Retained earnings, beginning of period	**3,831**	1,203
Retained earnings, end of period	**$ 3,753**	$ 2,706
Earnings (loss) per share		
Basic	**$ (0.00)**	$ 0.04
Diluted	**$ (0.00)**	$ 0.04

Consolidated Statement of Cash Flows

(unaudited)
(Thousands, except per share amounts)

Three Months Ended March 31	**2002**	2001
Cash provided by (used for):		
Operating Activities		
Earnings (loss) for the period	**$ (78)**	$ 1,503
Non-cash items		
Depreciation and depletion	**766**	646
Future tax	**(55)**	886
Cash flow from operations	**633**	3,035
Change in non-cash working capital	**(254)**	(28)
	379	3,007
Investing Activities		
Property, plant and equipment - additions	**(1,343)**	(4,195)
Change in non-cash working capital	**(486)**	488
	(1,829)	(3,707)
Financing Activities		
Increase in bank debt	**1,388**	952
Class A Subordinate Voting Shares		
Repurchased for cancellation	**(6)**	(8)
Class B Multiple Voting Shares		
Repurchased for cancellation	**(1)**	–
	1,381	944
Increase (decrease) in cash	**(69)**	244
Cash, beginning of period	**176**	14
Cash, end of period	**$ 107**	$ 258
Cash flow per share		
Basic	**$ 0.02**	$ 0.08
Diluted	**$ 0.02**	$ 0.08
Supplementary Information Regarding Cash Payments:		
Interest paid during the period	**$ 101**	$ 107
Taxes paid during the period	**$ 36**	$ –

Notes to the Interim Financial Statements

For the three months ended March 31, 2002

1. Accounting Policies

The interim consolidated financial statements of Diaz Resources Ltd. have been 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. For comparative purposes, the long-term debt outstanding at December 31, 2001 has been reclassified as well.

3. Share Capital

(Thousands)	Number of Shares	Amount
Class A Subordinate Voting Shares		
Balance at December 31, 2001	35,681	$ 8,186
Repurchased for cancellation	(20)	$ (5)
Balance at March 31, 2002	35,661	$ 8,181
Class B Multiple Voting Shares		
Balance at December 31, 2001	6,200	1,851
Repurchased for cancellation	(1)	–
Balance at March 31, 2002	6,199	1,851
Total Shares Outstanding, March 31, 2002	41,860	$ 10,032

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.

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 March 31, 2002, there are a total of 2,660,000 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.35 per share. A total of 2,450,000 options with a weighted average exercise price of $0.35 are exercisable at the end of the period. A total of 200,000 options granted to an employee were repriced, lowering the exercise price from $0.53 per share to $0.30 per share.

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 compensation 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 $16,000 and the loss for the period would have been $94,000. This would have no material effect on the reported loss per share for the period.

The fair value of the 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 March 31, 2002, Diaz had the following outstanding hedge obligations:

Volume	Fixed Price ($/GJ)	Time Period for Hedge
1,500 GJ/day	$ 3.58	April 1, 2002 to October 31, 2002
500 GJ/day	$ 3.68	April 1, 2002 to October 31, 2002
1,000 GJ/day	$ 4.27	May 1, 2002 to October 31, 2002

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 March 31

(Thousands)	**2002**	2001
Revenue		
Canada	**$ 1,319**	$ 3,318
United States	**207**	632
	$ 1,526	$ 3,950
Depletion and Depreciation		
Canada	**$ 725**	$ 667
United States	**60**	49
	$ 785	$ 716
Net Earnings (Loss)		
Canada	**$ (113)**	$ 1,107
United States	**35**	396
	$ (78)	$ 1,503
Additions to Property, Plant & Equipment		
Canada	**$ 1,302**	$ 4,075
United States	**41**	120
	$ 1,343	$ 4,195
Identifiable Assets, Net		
Canada	**$ 27,682**	$ 23,774
United States	**2,793**	2,691
	$ 30,475	$ 26,465

Corporate Information

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Executive Vice President and CFO

D.K. Clark
Vice President, Operations

C.S. Cohen
Corporate Secretary

Subsidiaries

Diaz Resources, Inc.
Orbit Oil & Gas 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