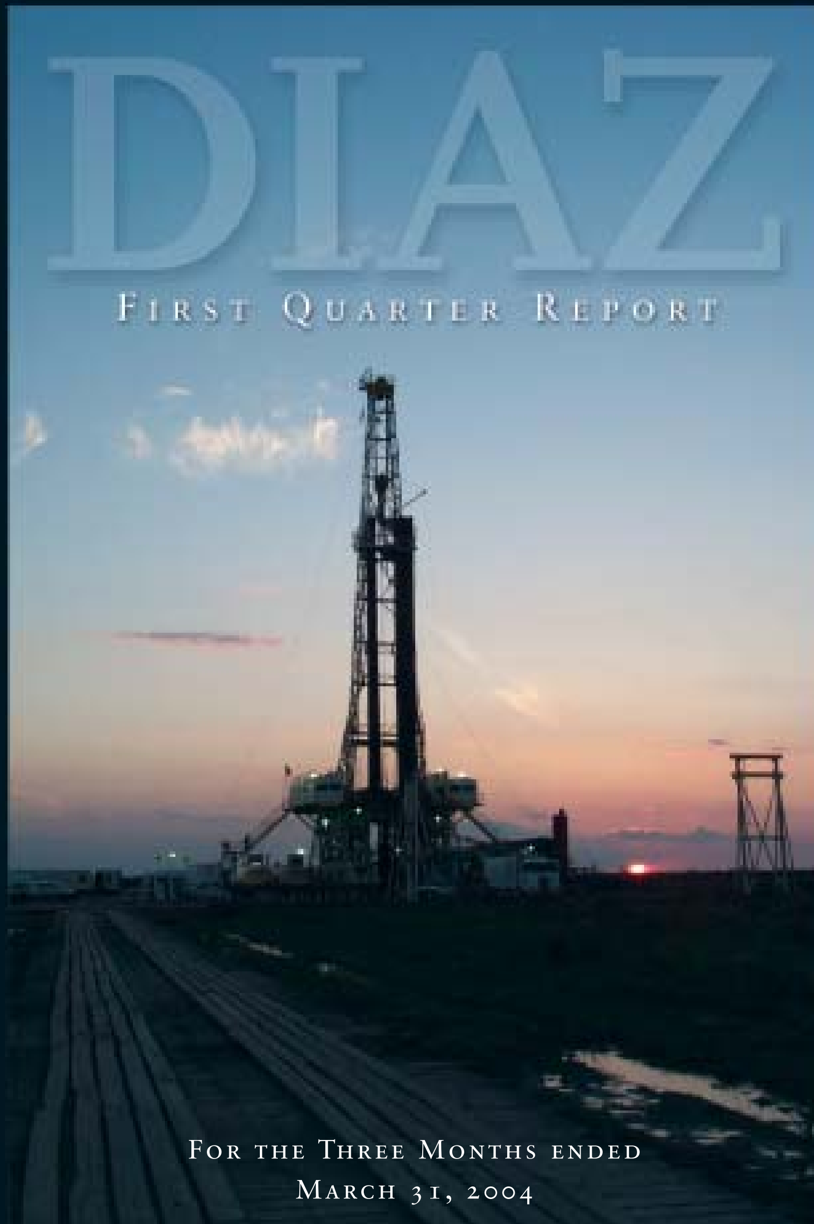
DIAZ

First Quarter Report



For the Three Months ended
March 31, 2004

DIAZ RESOURCES LTD.

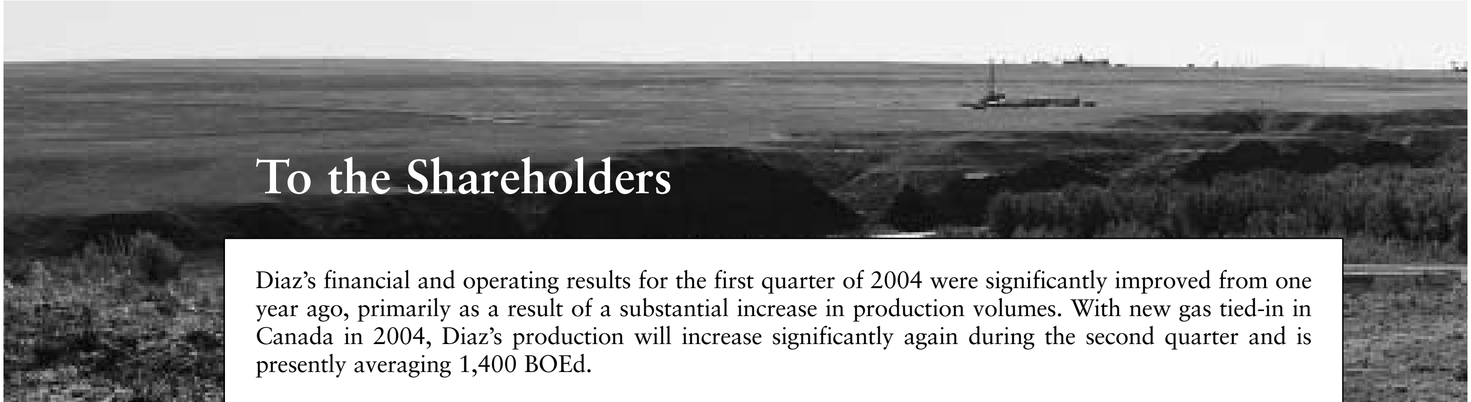
Corporate Profile

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 and a deep Wilcox gas play in Texas. Southern Alberta combines low cost drilling and low risk exploration opportunities with an excellent natural gas infrastructure and Texas provides significant upside potential for reserves and production.

Corporate Summary

(Thousands, except per share amounts)		Three Months Ended March 31 **2004**		*(Restated)* 2003
Financial				
Total revenue	**$**	**3,112**	$	2,389
Cash flow from operations	**$**	**1,973**	$	1,483
per share, diluted	**$**	**0.03**	$	0.03
Earnings for the period	**$**	**590**	$	466
per share, diluted	**$**	**0.01**	$	0.01
Capital additions	**$**	**2,929**	$	1,560
Dispositions	**$**	**17**	$	268
Net debt	**$**	**7,965**	$	9,793
Total assets	**$**	**39,805**		32,262
Operations				
Production				
Gas (MMcfd)		**5.6**		4.4
Oil (Bopd)		**104**		96
BOEd (6Mcf = 1Bbl)		**1,040**		822
Product Prices				
Gas ($/Mcf)	**$**	**6.86**	$	6.44
Oil ($/Bbl)	**$**	**42.24**	$	46.36
Total shares outstanding, at period end		57,501		45,914



To the Shareholders

Diaz's financial and operating results for the first quarter of 2004 were significantly improved from one year ago, primarily as a result of a substantial increase in production volumes. With new gas tied-in in Canada in 2004, Diaz's production will increase significantly again during the second quarter and is presently averaging 1,400 BOEd.

Financial

Financial results for the quarter were markedly improved over last year's results.

Revenue for the three months ended March 31, 2004 totaled $3.1 million compared with $2.4 million one year earlier.

Cash flow for the period increased to $2.0 million, or $0.03 per share compared with $1.5 million, or $0.03 per share in 2003. Diaz reported earnings for the three months ended March 31, 2004 of $590,000, or $0.01 per share compared with $466,000, or $0.01 per share reported in 2003.

Capital expenditures totaled $2.9 million compared with $1.6 million in 2003. Capital expenditures were financed from $2.0 million of cash flow and from an increase of $0.9 million in the Company's net debt. Diaz completed the first quarter of 2004 with net debt of $8.0 million and debt repayability from annualized cash flow from operations was reduced to one times from 1.7 times in the prior period.

Production

For the first quarter of 2004, natural gas production averaged 5.6 MMcfd compared with 4.4 MMcfd in 2003. Oil production averaged 104 Bopd compared with 96 Bopd in 2003. Total production averaged 1,040 BOEd from 822 BOEd in 2003, a 27% increase.

Exploration and Development

Canada

During Q1 2004, Diaz participated in natural gas discoveries at Enchant and Figure Lake in Alberta.

At Enchant, Diaz participated for 50% of a Bow Island gas well, which was tied-in in April and is currently producing at a rate of 3.0 MMcfd. In May, a second well located at Figure Lake, in which Diaz owns an 80% interest, will be tied-in and is anticipated to produce at an initial rate of 500 Mcfd.

The majority of Diaz's capital budget in the first quarter of 2004 was spent on completions and facilities construction to tie-in new gas wells in southern and central Alberta. By the end of April 2004, 10 new wells were tied-in increasing the Company's production to over 1,400 BOEd.

For the balance of the year, Diaz will focus on continuing its infill gas well program in southern Alberta and on higher-impact exploration prospects in central Alberta.

United States

The Wilcox program, in Colorado and Lavaca counties in Texas, has produced mixed results to date.

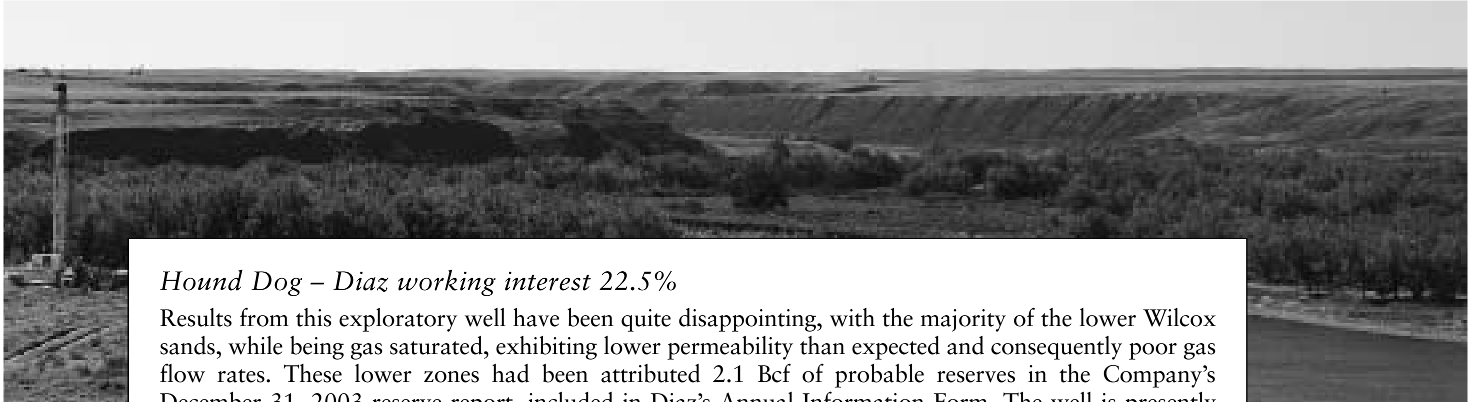
Provident City – Diaz working interest 13%

The Provident City #1 re-completion continues to perform exceptionally with current production at 10 MMcfd and a cumulative production of 3.5 Bcf, since July 2003.

Mustang Creek – Diaz working interest 8.3%

The Lehrer #1 well, which was perforated in three thin lower Wilcox zones is flowing steadily at 1 MMcfd and has current cumulative production of 0.6 Bcf.

The Lehrer #2 well produced at marginally economic rates from the middle Magnolia sand and is presently suspended, awaiting re-completion in the Heartbreak sand. This operation should be conducted in the next two weeks.



Hound Dog – Diaz working interest 22.5%

Results from this exploratory well have been quite disappointing, with the majority of the lower Wilcox sands, while being gas saturated, exhibiting lower permeability than expected and consequently poor gas flow rates. These lower zones had been attributed 2.1 Bcf of probable reserves in the Company's December 31, 2003 reserve report, included in Diaz's Annual Information Form. The well is presently awaiting re-completion in the Wilcox #12 sand and Diaz remains optimistic that this and higher sands will prove to be commercial.

While the foregoing results have been poorer than anticipated, the productivity and reserves per Wilcox zone exhibited in the Provident City pool, still encourages Diaz to continue evaluating the current wells and potential new locations on this trend.

The Economy and Energy Commodity Prices

The U.S. economy appears to be steadily recovering and the combination of the low U.S. dollar, together with low interest rates, has continued this trend into 2004. The recovery should lead to higher energy demand and result in stable or higher oil and gas prices.

Continued uncertainties in the Middle East, combined with increasing demand from evolving energy consumers such as China, have resulted in oil prices in excess of $35.00 U.S. per barrel.

Natural gas prices have continued to exhibit a North American supply and demand cycle and are positively influenced by fuel switching from higher priced oil. Despite storage volumes increasing to above seasonally normal levels, prices remain in excess of $5.50 U.S. per Mcf.

However, the increased drilling rate resulting from higher commodity prices should provide additional natural gas supply and place downward pressure on natural gas prices in 2004. For the long-term, Diaz does not believe new North American supply can replace ongoing decline rates. This should result in higher prices in 2005 and should continue to improve Diaz's ongoing financial results.

Business Outlook

The Company is very optimistic regarding the outlook for 2004.

The combined effect of increased production in the last half of 2003 and Q1 2004, high commodity prices, positive exploration results in the U.S. and new prospects being developed in both Texas and Alberta, should result in significant growth in cash flow during 2004.

In addition, the completion of equity issues in the last quarter of 2003 places Diaz in an excellent financial position to take full advantage of these growth opportunities.

On behalf of the Board,

"signed"

R.W. Lamond
President
May 10, 2004

Management's Discussion and Analysis

Prepared as of May 10, 2004

The following discussion and analysis is management's assessment of Diaz's historical, financial and operating results, together with future prospects, and should be read in conjunction with the unaudited consolidated financial statements of the Company for the three months ended March 31, 2004. The reader should be aware that historical results are not necessarily indicative of future performance.

The consolidated statement of operations and retained earnings and the consolidated statement of cash flows for the three month period ended March 31, 2003 have not been reviewed by the Company's external auditors.

Basis of Presentation

The financial data presented herein has been prepared in accordance with accounting principles generally accepted in Canada. All dollar amounts are in Canadian dollars unless otherwise indicated.

Non-GAAP Measurements – The Management's Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful as an indicator of the Company's performance than, cash flow from operating activities, as determined in accordance with accounting principles generally accepted in Canada. Diaz's determination of cash flow from operations may not be particularly comparable to that reported by other companies especially those in other industries. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the unaudited interim consolidated financial statements and the audited consolidated financial statements. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

BOE Presentation – The term barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf : 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in this report are derived by converting gas to oil in the ratio of six Mcf of gas to one Bbl of oil.

This discussion and the Company's first quarter interim report contain forward-looking statements that involve risk and uncertainties. Such information, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made.

Oil & Gas Production

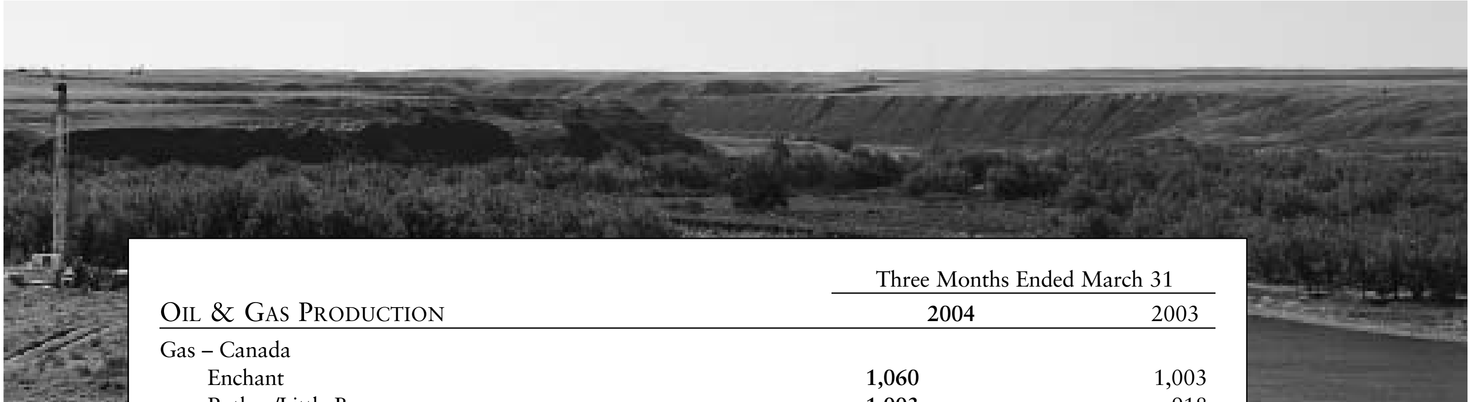
Diaz is primarily a natural gas producer with over 90% of its revenues in Q1 2004 coming from natural gas wells. Diaz owns interests in producing properties in Canada: Alberta and Saskatchewan, and in the United States, almost exclusively in Texas.

In Canada, natural gas production remained constant at 3.8 MMcfd, with new production at Provost, Edwand, Jaslan and Enchant offsetting production declines in the more mature properties.

The Company's U.S. natural gas production increased to 1.8 MMcfd from approximately 0.6 MMcfd in Q1 2003. The increase is primarily due to production from a new zone completed in the Company's Provident City #1 well in June 2003.

Diaz's Canadian oil production was slightly lower than reported in 2003, which was the result of normal declines in the Company's mature properties. This was offset by liquids production in the new Provident City zone in Texas.

New wells drilled in Q1 2004 and tied-in subsequent to the end of Q1 2004 have increased Diaz's production to over 1,400 BOEd by the end of April 2004.

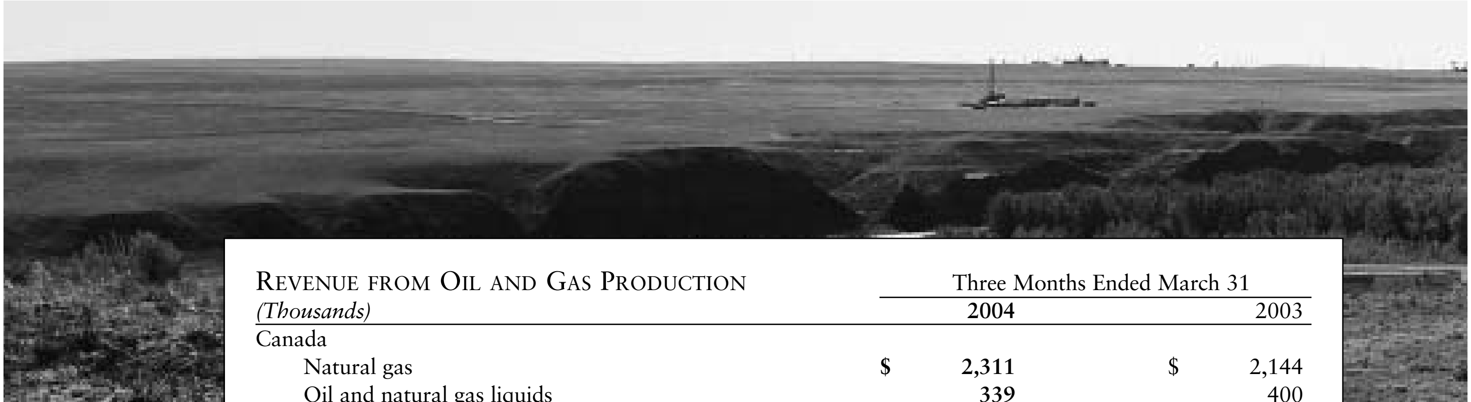


Oil & Gas Production	Three Months Ended March 31 2004	2003
Gas – Canada		
Enchant	1,060	1,003
Retlaw/Little Bow	1,003	918
Carmangay	320	500
Therien	245	261
Provost	217	–
Jaslan	194	–
Edwand	190	–
Iron Springs	149	292
Other	418	818
Gas – Canada (Mcfd)	3,796	3,792
Oil & Liquids – Canada		
Parkman	35	35
Neutral Hills	21	25
Red Earth	14	16
Other	19	20
Oil & Liquids – Canada (Bopd)	89	96
BOEd – Canada (6Mcf = 1Bbl)	721	728
Gas – U.S.		
Provident City	1,662	549
Mustang Creek	150	–
Other	9	17
Gas – U.S. (Mcfd)	1,821	566
Oil & Liquids – U.S.		
Provident City	15	–
Oil & Liquids – U.S. (Bopd)	15	–
BOEd – U.S. (6Mcf = 1Bbl)	319	94
Gas – Company (Mcfd)	5,617	4,358
Oil and Liquids – Company (Bopd)	104	96
BOEd – Company	1,040	822

Product Prices	Three Months Ended March 31 2004	2003
Canada		
Gas ($/Mcf)	$ 6.69	$ 6.44
Oil & Liquids ($/Bbl)	$ 42.12	$ 46.36
$/BOE	$ 40.38	$ 39.66
U.S.		
Gas ($/Mcf)	$ 7.23	$ 8.70
Oil & Liquids ($/Bbl)	$ 43.03	$ –
$/BOE	$ 43.36	$ 52.17
$/BOE – Company	$ 41.29	$ 41.10

Average commodity prices for the three months ended March 31, 2004 were marginally higher than prices for the same period in 2003. Canadian gas prices averaged $6.69 per Mcf, 4% higher than the price reported in 2003. Oil prices were 9% lower than the comparable period in 2003.

Diaz believes oil prices will remain high throughout 2004 due to a strong global demand for oil and supply concerns in the Middle East. This will continue to have a positive influence on gas prices and maintain pressure to keep gas prices high despite higher inventory levels. However, the Company has sold forward approximately 2 MMcfd of gas production at an average price of $5.94 to $6.26 per Mcf for the period beginning April 1, 2004 to October 31, 2004 and 2 MMcfd of gas production at average prices of between $6.78 and $8.02 per Mcf from November 1, 2004 to March 31, 2005.



REVENUE FROM OIL AND GAS PRODUCTION	Three Months Ended March 31	
(Thousands)	**2004**	2003
Canada		
Natural gas	$ **2,311**	$ 2,144
Oil and natural gas liquids	**339**	400
Other	**7**	2
Total revenue	$ **2,657**	$ 2,546
U.S.		
Natural gas	$ **1,196**	$ 443
Oil and natural gas liquids	**60**	–
Total Revenue	$ **1,256**	$ 443
Total Revenue – Company	$ **3,913**	$ 2,989

Diaz's growing U.S. gas production accounted for 32% of the Company's revenue during Q1 2004. Increased U.S. production was primarily responsible for higher revenue of $3.9 million for the quarter compared with $3.0 million in 2003.

As a result of increased production placed on stream during Q1 2004 and continued high gas prices, Diaz is confident that revenues will continue to grow throughout the year.

ROYALTIES	Three Months Ended March 31	
(Thousands, except percentage amounts)	**2004**	2003
Canada		
Crown	$ **244**	$ 292
Freehold	**225**	214
Alberta Royalty Tax Credit (ARTC)	**(40)**	(47)
Royalties, net of ARTC	$ **429**	$ 459
per BOE	$ **6.54**	$ 7.01
Royalty as a percentage of revenue	**16.1%**	18.0%
U.S.		
Royalties – Freehold	$ **372**	$ 141
per BOE	$ **12.82**	$ 16.60
Royalty as a percentage of revenue	**29.6%**	31.8%

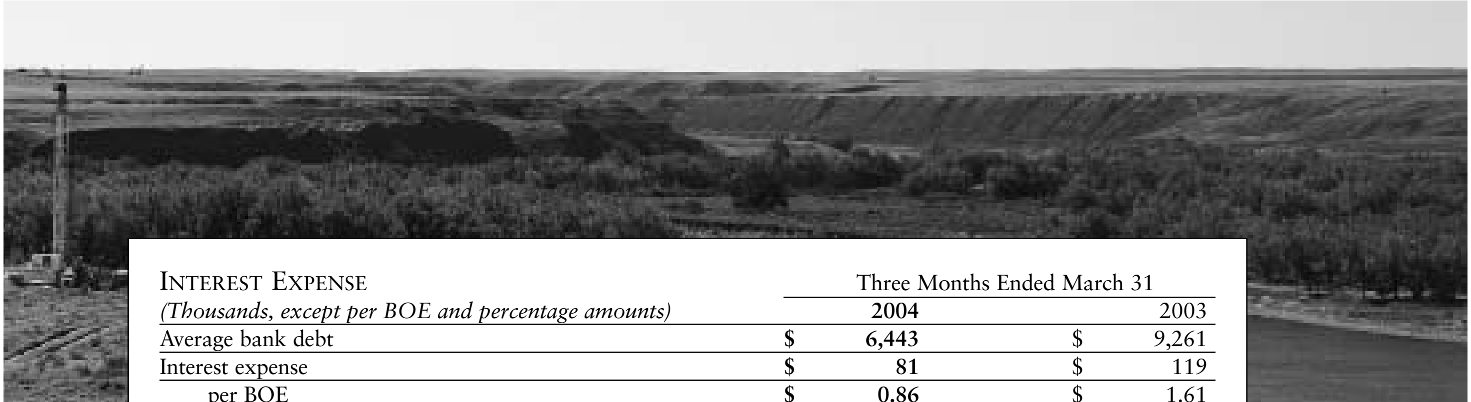
Royalties for the three months ended March 31, 2004 increased to $801,000, net of ARTC, or a corporate royalty rate of 20.5% compared with $600,000, or 20.1% in 2003.

OPERATING EXPENSE	Three Months Ended March 31	
(Thousands, except per BOE amounts)	**2004**	2003
Canada	$ **705**	$ 469
per BOE	$ **10.75**	$ 7.16
U.S.	$ **29**	$ 9
per BOE	$ **0.99**	$ 1.06
Total – Company, per BOE	$ **7.76**	$ 6.46

Operating expenses were higher during Q1 2004 due primarily to maintenance costs and contract labour increases in non-operated properties.

OVERHEAD	Three Months Ended March 31	
(Thousands, except per BOE amounts)	**2004**	2003
Compensation costs	$ **224**	$ 222
Other costs	**230**	206
Recovered from third parties	**(88)**	(62)
Capitalized	**(58)**	(57)
Net overhead	$ **308**	$ 309
per BOE	$ **3.26**	$ 4.18

Overhead costs were relatively unchanged during the three months ended March 31, 2004 at $308,000 compared with $309,000 in 2003.



INTEREST EXPENSE	Three Months Ended March 31	
(Thousands, except per BOE and percentage amounts)	**2004**	2003
Average bank debt	**$ 6,443**	$ 9,261
Interest expense	**$ 81**	$ 119
per BOE	**$ 0.86**	$ 1.61
Average interest rate	**5.0%**	5.0%

Total interest expense decreased to $81,000 during the three months ended March 31, 2004 from $119,000 reported one year earlier. This was due to the smaller loan amount during the current period.

Diaz reduced its bank debt in Q4 2003 with the proceeds from two equity financings completed during the period. Diaz anticipates its debt level will remain under $10.0 million during 2004.

DEPLETION, DEPRECIATION & AMORTIZATION	Three Months Ended March 31	
(Thousands, except per BOE amounts)	**2004**	2003
Canada		
Depletion and depreciation	**$ 1,003**	$ 738
Asset Retirement Obligation accretion	**27**	22
	1,030	760
per BOE	**$ 15.70**	$ 11.60
U.S.		
Depletion and depreciation	**$ 184**	$ 23
Asset Retirement Obligation accretion	**1**	–
Amortization of deferred credit	**(15)**	(40)
Net depletion and depreciation	**$ 170**	$ (17)
per BOE	**$ 6.36**	$ (2.00)
Total – Company	**$ 1,200**	$ 743
per BOE	**$ 12.17**	$ 10.04

Higher finding costs combined with revisions of previous estimates of reserves have resulted in an increase in the Company's depletion costs for the period.

LIQUIDITY AND CAPITAL RESOURCES

Diaz completed the three months ended March 31, 2004 with a net debt of $8.0 million compared with $9.8 million in 2003. The Company has a credit facility of $10.8 million, which will be reviewed by May 30, 2004.

The Company's capital expenditure budget for 2004 will be funded primarily from cash flow.

INCOME TAXES

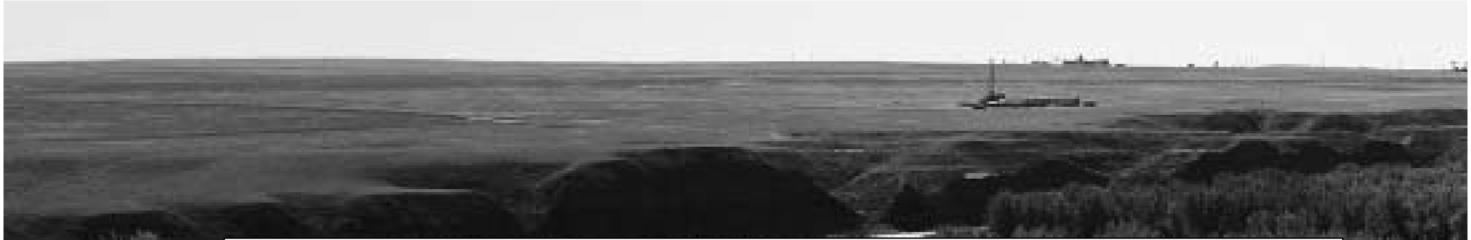
Diaz reports future tax expense of $159,000 and current taxes of $16,000, being primarily capital taxes.

During the first quarter of 2004, the Alberta government reduced its tax rate by 1%. This had the effect of reducing Diaz's future income tax liability by $131,000. The Company does not anticipate being taxable on a current basis in 2004, however, Diaz may be taxable in 2005.

ISSUER BID

During the three months ended March 31, 2004, Diaz repurchased 62,000 Multiple Voting Shares and no Class A Subordinate Voting Shares at an average price of $0.63 per share.

Diaz currently has a Normal Course Issuer Bid to purchase up to a further 1,966,000 Class A Shares and 247,000 Class B Shares through the facilities of the Toronto Stock Exchange. The Bid expires on August 10, 2004.



Business Risk

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Diaz's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

The Company minimizes its business risks by focusing on a select group of properties. This enables Diaz to have more control over the timing, direction and costs related to exploration and development opportunities. The geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to all field operations by management. Diaz also carries insurance coverage to protect itself against potential losses.

Employing a highly motivated and experienced staff of petroleum and natural gas professionals further minimizes the business risk.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Diaz. To manage this risk, the Company has entered into a number of forward sales contracts in relation to gas prices.

Outlook

The proceeds from the equity issue in October and December 2003, combined with additional gas production in both Canada and the United States and strong gas prices, will provide Diaz with the necessary cash flow and strong balance sheet to fund its exploration and development budget in the United States and in Canada.

Consolidated Balance Sheet

(unaudited)

(Thousands) As at		**March 31** **2004**		*(Restated–Note 2)* December 31 2003
ASSETS				
Current Assets				
Cash	$	**960**	$	124
Accounts receivable		**2,743**		4,517
Prepaid expense		**190**		200
		3,893		4,841
Future tax asset		**–**		70
Property, plant and equipment		**52,777**		49,840
Accumulated depletion and depreciation		**(16,865)**		(15,676)
		35,912		34,164
Total Assets	$	**39,805**	$	39,075
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	**2,864**	$	6,510
Bank debt (Note 3)		**9,021**		5,431
		11,885		11,941
Other Liabilities				
Future income tax liability		**4,291**		4,208
Deferred credits		**–**		15
Asset retirement obligation (Note 6)		**1,601**		1,547
Total Other Liabilities		**5,892**		5,770
		17,777		17,711
SHAREHOLDERS' EQUITY				
Share capital (Note 4)		**15,357**		15,303
Contributed surplus (Note 4)		**159**		121
Retained earnings		**6,512**		5,940
		22,028		21,364
Total Liabilities and Shareholders' Equity	$	**39,805**	$	39,075

Approved by the Board:

“signed” “signed”

R.W. Lamond, Director C.A. Teare, Director

Consolidated Statement of Operations & Retained Earnings

(unaudited)

(Thousands, except per share amounts)

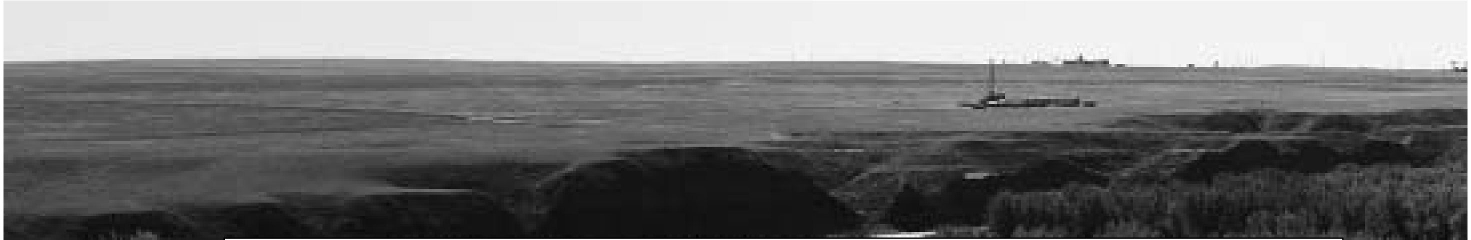
Three Months Ended March 31		2004		(Restated–Note 2) 2003
Revenue				
Production	$	**3,913**	$	2,989
Royalties		**(841)**		(647)
Alberta Royalty Tax Credit		**40**		47
		3,112		2,389
Expenses				
Operating and transportation		**734**		478
General and administration		**346**		309
Interest expense		**81**		119
Foreign exchange (gain) loss		**(14)**		25
Depletion and depreciation		**1,200**		743
		2,347		1,674
Earnings before income tax		**765**		715
Income tax expense				
Current		**16**		–
Future		**159**		249
Total income tax		**175**		249
Earnings for the period		**590**		466
Excess of cost over paid up capital on share repurchases		**(18)**		(7)
Retained earnings, beginning of period, as previously reported		**6,067**		3,979
Change in accounting policy (Note 2)		**(127)**		11
Retained earnings, end of period	$	**6,512**	$	4,449
Earnings per share, basic and diluted	$	**0.01**	$	0.01

Consolidated Statement of Cash Flows

(unaudited)

(Thousands)

Three Months Ended March 31		**2004**		*(Restated–Note 2)* 2003
Cash provided by (used for):				
Operating Activities				
Earnings for the period	$	**590**	$	466
Non-cash items:				
Depreciation and depletion		**1,200**		743
Non-cash compensation		**38**		–
Future taxes		**159**		249
Foreign exchange loss (gain)		**(14)**		25
Cash flow from operations		**1,973**		1,483
Change in non-cash working capital		**110**		(15)
		2,083		1,468
Investing Activities				
Property, plant and equipment – additions		**(2,929)**		(1,560)
Property, plant and equipment – dispositions		**17**		268
Change in non-cash working capital		**(1,959)**		27
		(4,871)		(1,265)
Financing Activities				
Increase (decrease) in bank debt		**3,589**		(125)
Class A Subordinate Voting Shares				
Issued for cash on exercise of options		**75**		–
Repurchased for cancellation		**–**		(45)
Class B Multiple Voting Shares				
Repurchased for cancellation		**(40)**		(1)
		3,624		(171)
Increase (decrease) in cash		**836**		32
Cash, beginning of period		**124**		138
Cash, end of period	$	**960**	$	170
Supplementary information regarding cash payments:				
Interest paid during the period	$	**81**	$	119
Taxes paid during the period	$	**16**	$	–



Notes to the Interim Consolidated Financial Statements

For the Three Months Ended March 31, 2004

1. Accounting Policies

The interim consolidated financial statements of Diaz Resources Ltd. ("Diaz") 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, 2003.

2. Change in Accounting Policies

a) Asset retirement obligations

As at January 1, 2004, the Company has retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") guideline for accounting for asset retirement obligations – "ARO". Under this standard, the Company must recognize the fair value of an ARO as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depletion of the capitalized asset retirement cost is determined on a basis consistent with depletion of the Company's other assets. With time accretion will increase the carrying amount of the obligation. Accretion will also be expensed.

Previously, the Company provided for estimated future abandonment and site restoration costs for its oil and gas properties using the unit-of-production method. The adoption of the new policy resulted in a decrease in opening retained earnings at December 31, 2003 by $6,000 (2002 – ($11,000)), and a decrease in the earnings for the three months ended March 31, 2003 of $17,000. An additional effect of this change is an increase to property, plant and equipment of $957,000 (2002 – $892,000) at December 31, 2003 and an increase to liabilities of $963,000 (2002 – $881,000) at December 31, 2003.

b) Stock based compensation

At January 1, 2004, the Company adopted the fair value method for accounting of stock based compensation. The change was accounted for retroactively without restatement of prior period numbers. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings in the period of the option grant.

Previously, the Company used the intrinsic value method and no compensation expense was recognized.

As a result of this change in accounting policy, retained earnings at January 1, 2004 have been decreased by $121,000 and contributed surplus has been increased by $121,000.

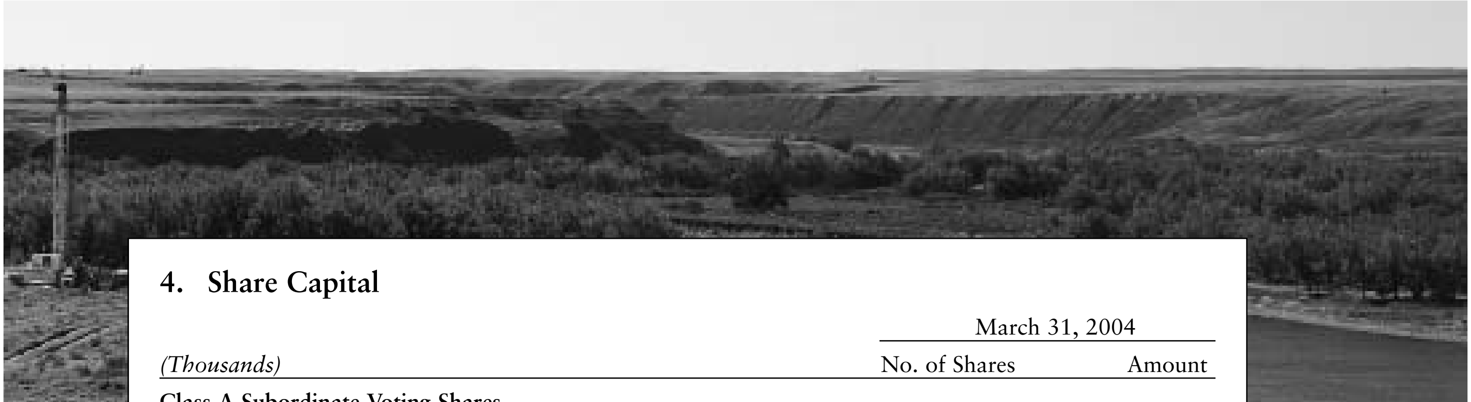
c) Oil and gas full cost accounting

As at January 1, 2004, the Company adopted Accounting Guideline 16, "Oil and Gas Accounting – Full Cost" ("AcG-16"), replacing AcG-5. AcG-16 provides for methodology consistent with CICA Section 3063, "Impairment of Long-lived Assets" and CICA Section 3475, "Disposal of Long-lived Assets and Discontinued Operations."

The new standards prescribe the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure the impairment amount as the difference between the carrying amount and the fair value. In addition, discontinued operations disclosure will be required upon the disposition of a component or cost centre of the entity rather than an entire business segment. There was no effect on the Company's financial statements.

3. Long-term Debt

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.



4. Share Capital

(Thousands)	March 31, 2004 No. of Shares		Amount
Class A Subordinate Voting Shares			
Balance, December 31, 2003	51,104	$	13,459
Issued on exercise of options	285		77
Offering expense	–		(1)
Balance, March 31, 2004	51,389	$	13,535
Class B Multiple Voting Shares			
Balance, December 31, 2003	6,174	$	1,844
Repurchased for cancellation	(62)		(22)
Balance, March 31, 2004	6,112	$	1,822
Contributed Surplus	–		159
Total Shares Outstanding, March 31, 2004	**57,501**	**$**	**15,516**

Voting Rights

Class A Subordinate Voting Shares carry voting rights of one voter 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 March 31, 2004, there are a total of 3,003,333 options granted and outstanding under the stock option plan with a weighted average exercise price of $0.31 per share. A total of 1,989,833 options with a weighted average exercise price of $0.31 are exercisable at the end of the period.

The Company accounts for its stock based compensation plan using the fair value method, whereby compensation costs are charged to earnings in the period in which they are incurred.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as follows: Risk free interest rate – 3.00%; Expected lives (years) – 4.00; Expected volatility – 0.90 and Dividends per share – n/a.

5. Financial Instruments

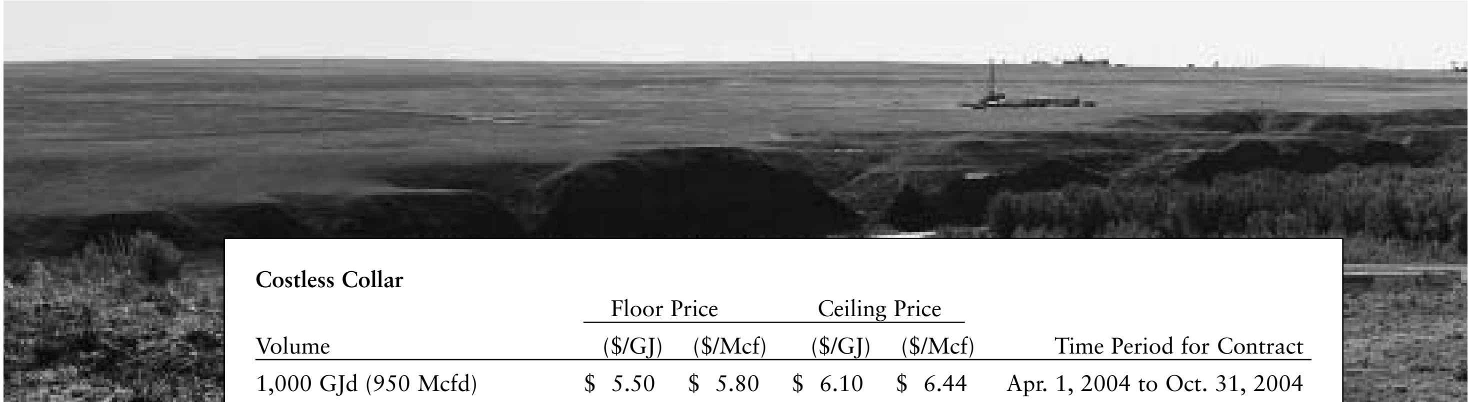
The Company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. dollar exchange rates. The Company, when appropriate, utilizes financial instruments to manage its exposure to these risks.

Natural gas contracts

At March 31, 2004, the following fixed price contracts were in effect:

Fixed Price

Volume	Fixed Price ($/GJ)	Fixed Price ($/Mcf)	Time Period for Contract
500 GJd (475 Mcfd)	$ 5.76	$ 6.05	Apr. 1, 2004 to Oct. 31, 2004
500 GJd (475 Mcfd)	$ 5.77	$ 6.06	Apr. 1, 2004 to Oct. 31, 2004



Costless Collar

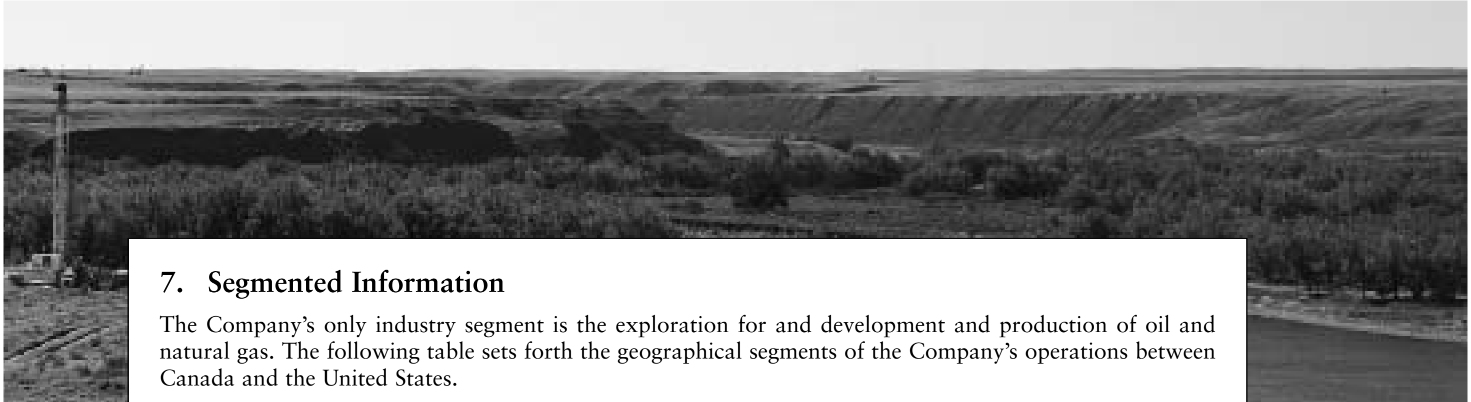
Volume	Floor Price ($/GJ)	Floor Price ($/Mcf)	Ceiling Price ($/GJ)	Ceiling Price ($/Mcf)	Time Period for Contract
1,000 GJd (950 Mcfd)	$ 5.50	$ 5.80	$ 6.10	$ 6.44	Apr. 1, 2004 to Oct. 31, 2004
1,000 GJd (950 Mcfd)	$ 6.40	$ 6.72	$ 7.40	$ 7.77	Nov. 1, 2004 to Mar. 31, 2005
1,000 GJd (950 Mcfd)	$ 6.50	$ 6.83	$ 7.87	$ 8.26	Nov. 1, 2004 to Mar. 31, 2005

6. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	2004	2003
Asset Retirement Obligation, beginning of period	**$ 1,547**	$ 1,367
Liabilities incurred	**27**	31
Accretion expense	**27**	17
Asset Retirement Obligation, end of period	**$ 1,601**	$ 1,415

The total undiscounted amount of estimated cash flows required to settle the obligation is $2,714,000 (2002 – $2,373,000), which has been discounted using a credit-adjusted risk free rate of 7 percent. Most of these obligations are expected to be paid between 2002 and 2022.



7. Segmented Information

The Company's only industry segment is the exploration for and development and production of oil and natural gas. The following table sets forth the geographical segments of the Company's operations between Canada and the United States.

	Three Months Ended March 31	
		(Restated–Note 2)
	2004	2003
Revenue		
Canada	**$ 2,228**	$ 2,087
United States	**885**	302
	$ 3,113	$ 2,389
Interest Expense		
Canada	**$ 81**	$ 119
United States	**–**	–
	$ 81	$ 119
Current Taxes		
Canada	**$ 16**	–
United States	**–**	–
	$ 16	$ –
Cash Flow from Operations		
Canada	**$ 1,119**	$ 1,191
United States	**854**	292
	$ 1,973	$ 1,483
Depletion and Depreciation		
Canada	**$ 1,030**	$ 760
United States	**170**	(17)
	$ 1,200	$ 743
Net Earnings		
Canada	**$ 160**	$ 357
United States	**430**	109
	$ 590	$ 466
Additions to Property, Plant & Equipment		
Canada	**$ 2,290**	$ 1,265
United States	**639**	295
	$ 2,929	$ 1,560
Identifiable Assets, Net		
Canada	**$ 35,269**	$ 30,710
United States	**4,536**	2,552
	$ 39,805	$ 33,262

Corporate Information

Directors

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Calgary, Alberta

Donald K. Clark
Calgary, Alberta

Clive M. Stockdale [1]
Vancouver, British Columbia

Allan R. Twa [1]
Calgary, Alberta

Raj Agrawal
Calgary, Alberta

(1) Member of the Audit Committee

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Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Officers

R.W. Lamond
President, Chairman of the Board & CEO

C.A. Teare
Executive Vice President & CFO

D.K. Clark
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 Exchange Listing

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

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