

Q1 INTERIM REPORT 2007



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's current focus is on the exploration for natural gas along a deep Wilcox trend in Texas. In Canada, Diaz is presently developing shallow gas prospects in southern Alberta and oil prospects in Alberta and Saskatchewan.

Corporate Summary

(Unaudited) (Thousands, except per share amounts)	Three Months Ended March 31	
	2007	2006
Financial		
Total revenue	\$ 3,249	\$ 4,645
Cash flow from operations	\$ 1,556	\$ 3,319
per share, diluted	\$ 0.02	\$ 0.05
(Loss) earnings for the period	\$ (278)	\$ 1,007
per share, diluted	\$ -	\$ 0.02
Capital additions	\$ 1,866	\$ 5,249
Dispositions	\$ 459	\$ -
Net debt *	\$ 11,648	\$ 9,310
Total assets	\$ 59,480	\$ 56,657
Operations		
Production		
Gas (MMcfd)	5.6	6.2
Oil (Bopd)	90	157
BOEd (6Mcf = 1Bbl)	1,017	1,196
Product Prices		
Gas (\$/Mcf)	\$7.26	\$ 8.76
Oil (\$/Bbl)	\$56.22	\$ 60.50
Total shares outstanding, at period end	63,861	61,845

* Net debt includes \$7.1 million of convertible debentures issued in Q1 2007, rather than the balance sheet amount of \$5.7 million. See Note 6, "Convertible Debentures", in the notes to the financial statements for the period ended March 31, 2007.





To The Shareholders

Diaz's financial results during the first quarter of 2007 were hampered by lower gas prices and declining production volumes. However, gas prices have strengthened since the first quarter and with the addition of new production, Diaz anticipates the financial results should steadily improve in the second quarter of 2007.

Diaz continues with its drilling program in Canada and the United States and in April began the drilling of its large Cheney prospect in Texas.

United States

Diaz's focus in 2007 will be the deep Wilcox play. Diaz has identified up to 16 different locations for wells on lands currently under lease and will rank and prioritize these wells for drilling during 2007 and 2008.

Cheney, Colorado County, Texas – Diaz Working Interest 20%

In Texas, follow-up 3D seismic work surrounding the Allen Ranch location led to the identification of a large structure to the east, "Cheney". The Cheney #1 well, operated by Petrohawk Energy Corp., is situated 1.25 miles to the east of the Company's Allen Ranch field and 1 mile southeast of Newfield Corporation's EPC field.

The adjacent Newfield structure is analogous to the Cheney structure and has produced 40 Bcf to date and has an estimated potential of an additional 30 Bcf. Based on seismic and geological interpretation, the Cheney structure is potentially 1,200 acres in size and, if productive, could yield 100 Bcf of natural gas and would be the largest Wilcox gas structure Diaz has drilled to date.

Drilling commenced on the Cheney #1 well on April 17, 2007. The proposed total depth of the well is 18,100 feet targeting multiple Wilcox gas zones. Diaz estimates that the well should reach the proposed depth by mid to late July 2007.

Canada

In Alberta, the Company's focus for 2007 is on an Arcs oil discovery made at Hays in November 2006. This project should receive additional development attention in 2007.

Hays, Alberta, Canada – Diaz Working Interest 80%

The discovery well has been tested in two zones. At the November 29, 2006, Alberta land sale, Diaz was successful in acquiring additional adjacent lands and based on seismic interpretation, Diaz and its partner control the entire 450-acre prospect. Diaz has identified additional potential locations on its acreage.

Completion operations, construction of a battery and a solution gas sales line will be completed once government approvals have been received, which is anticipated to occur in the second quarter of 2007. Additional development drilling should commence during the third quarter of 2007.



Financial

Revenue for the three months ended March 31, 2007 totaled \$3.2 million compared with \$4.6 million in 2006. Cash flow from operations decreased to \$1.6 million, or \$0.02 per share compared with \$3.3 million or \$0.05 per share in Q1 2006. Diaz reported a loss for the three month period of \$278,000, or nil per share compared with earnings of \$1.0 million, or \$0.02 per share, reported in Q1 2006.

Capital expenditures for the first quarter totaled \$1.9 million compared with \$5.2 million in Q1 2006 and were financed from cash flow, and capital dispositions.

Diaz's net debt includes \$7.1 million of convertible debentures and the \$543,000 cost of the issue of the debentures. Diaz completed the first quarter with net debt of \$11.7 million versus \$11.2 million at the beginning of the period and debt repayability from annualized cash flow from operations was 1.9 times, an improvement from 2.3 times for the three months ended December 31, 2006.

Production

Natural gas production for the first quarter decreased to 5.6 MMcfd from 6.2 MMcfd for 2006 and oil production declined to average 90 Bopd for the quarter compared with 157 Bopd for the same period in 2006. The majority of the natural gas production decline was the result of the Hancock #2 well which was shut-in during most of the first quarter. We anticipate the well will be returned to production in the second half of 2007.

Business Outlook

Natural gas storage levels in the United States and Canada have dropped substantially below last year's levels as cold temperatures in Canada and the eastern United States contributed to larger than expected draw downs during the first quarter of 2007. Meanwhile, gas targeted rig activity in Canada has reached a historic low. Both of these factors have contributed to the strengthening of natural gas prices in Q1 2007 and Diaz anticipates strong gas prices for the balance of the year.

The Company plans to continue its gas-targeted activities throughout the year. To assist in financing this program, the Company raised \$2 million of flow through shares in December 2006 and completed an issue of \$7.1 million of convertible debentures in March 2007. These two financings greatly add to the Company's financial flexibility and should permit increased drilling and the acquisition of natural gas assets while general industry conditions are steadily recovering.

On behalf of the Board,

D.K. Clark, Chief Operating Officer

R.W. Lamond, Chairman

May 14, 2007



Management's Discussion and Analysis

May 14, 2007

The following discussion and analysis is management's assessment of Diaz's historical, financial and operating results ("MD&A"). This review should be read in conjunction with the unaudited consolidated financial statements of the Company for the three months ended March 31, 2007, and the audited financial statements at December 31, 2006. The reader should be aware that historical results are not necessarily indicative of future performance.

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 consolidated financial statements. The Company also presents cash flow from operations per share whereby per share amounts are calculated using the weighted average shares outstanding consistent with the calculation of earnings per share. In addition, the Company presents "net debt", which is calculated as the aggregate of long term debt and working capital.

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.

Forward-looking Statements – Certain of the statements contained herein including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, completion and tie-in of wells and capital expenditures and the timing thereof may be forward-looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals



and ability to access sufficient capital from internal and external sources and the risk factors outlined under "Risk Factors" in the Company's Annual Information Form and elsewhere herein. The recovery and reserve estimates of Diaz's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could effect Diaz's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at Diaz's website (www.diazresources.com). Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, including but not limited to assumptions as to the price of oil and natural gas, interest rates, exchange rates and the regulatory and legal environment in which Diaz operates, the producibility of Diaz's reserves, the capital expenditures program and future operations and other matters, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Company's general expectations concerning this industry is based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.



Operations

Diaz is primarily a natural gas producer with 91% of its production for the three month period ended March 31, 2007, coming from natural gas wells. Diaz owns interests in producing properties in Alberta and Saskatchewan in Canada, and in Texas in the United States.

United States

In the United States, the normal production declines from wells on the Wilcox trend and the loss of production from the Hancock #2 well for the quarter led to an 18% reduction in U.S. gas production for the first quarter to an average of 2.5 MMcfd compared with 3.1 MMcfd for Q1 2006. Diaz anticipates U.S. gas production should be higher in the second half of 2007 as additional zones in the Dickson #2 well are completed and when mechanical difficulties with the Hancock #2 well have been rectified and the well is returned to production.

Allen Ranch, Colorado County, Texas – Diaz Working Interest 20%

The Hancock #2 well was cased in February 2006. The well has been completed in four Wilcox gas zones. In the first quarter 2007, during commingling operations a hole in the production tubing was discovered at 9,500 feet. The tubing has been pulled and has been sent out for inspection prior to proceeding with the commingling operation.

Canada

In Canada, natural gas production for the first quarter 2007 declined by 4% to 3.1 MMcfd compared to production of 3.2 MMcfd from Q1 2006. Natural declines were substantially offset by production added from the Jaslan field.

Diaz's oil production declined by 43% for the three months ended March 31, 2007, to 90 Bopd compared to 157 Bopd for Q1 2006. The primary cause of the decline in oil production was reduced output from the Parkman and Harmattan fields as higher initial field rates in Q1 2006 have declined to the lower stabilized rates realized in Q1 2007.

Jaslan, Alberta – Diaz Working Interest 37.5%

In November 2006, Diaz installed a compressor station and 10 kilometres of pipeline connecting 5 gas wells (2.25 net wells). The project has added 500 Mcfd net to Diaz during the first quarter of 2007. Late in the first quarter, Diaz drilled and connected a new gas well which is producing 110 Mcfd net to Diaz.

Enchant South – Hays, Alberta – Diaz Working Interest 80%

A new gas well drilled during Q1 2007 came on stream in May 2007 and is expected to produce 500 Mcfd net to the Company.

The Company's overall production for Q1 2007 declined by 15% to 1,017 Boed compared to the prior year first quarter rate of 1,196 Boed. Diaz believes this decline should be reversed when production has been restored in all of its Wilcox gas wells and when wells in Hays and Enchant have been placed on production during the second quarter of 2007.



Where meaningful, the following production information has been segmented for each of the Company's geographic areas of operations.

Oil & Gas Production	Three Months Ended March 31	
	2007	2006
Gas - Canada		
Retlaw	740	966
Enchant	614	965
Jaslan	610	29
Carmangay	243	287
Therien	240	221
Harmattan	209	293
Iron Springs	59	71
Provost	53	81
Edwand	11	30
Other	295	262
Gas - Canada (Mcf)	3,074	3,205
Oil & Liquids - Canada		
Parkman	23	54
Harmattan	20	56
Hays	8	-
Red Earth	6	11
Other	24	24
Oil & Liquids - Canada (Bopd)	81	145
BOEd - Canada (6Mcf = 1Bbl)	593	679
Gas - U.S.		
Hound Dog	991	1,036
Provident City	933	908
Allen Ranch	522	1,012
Mustang Creek	37	68
Other	3	5
Gas - U.S. (Mcf)	2,486	3,029
Oil & Liquids - U.S.		
Provident City	7	10
Other	2	2
Oil & Liquids - U.S. (Bopd)	9	12
BOEd - U.S. (6Mcf = 1Bbl)	424	517
Gas - Company (Mcf)	5,560	6,234
Oil and Liquids - Company (Bopd)	90	157
BOEd - Company	1,017	1,196



Product Prices	Three Months Ended	
	March 31	
	2007	2006
Canada		
Gas (\$/Mcf)	\$ 7.10	\$ 9.06
Oil & Liquids (\$/Bbl)	\$ 55.30	\$ 59.60
\$/BOE	\$ 44.33	\$ 55.47
U.S.		
Gas (\$/Mcf)	\$ 7.47	\$ 8.45
Oil & Liquids (\$/Bbl)	\$ 64.39	\$ 71.83
\$/BOE	\$ 45.22	\$ 51.21
\$/BOE - Company	\$ 44.70	\$ 53.63

Natural gas prices declined throughout the second half of 2006 from the above average levels received in Q1 2006. This decline was the result of an unusually warm winter and the resulting increasing levels of gas in storage. During the first quarter of 2007 gas storage levels were drawn down faster than in the previous year helping to support a strong natural gas price in Canada and in the United States.

In Canada, Diaz received an average price of \$7.10 per Mcf in Q1 2007, 22% lower than the comparable period in 2006, however, the price for the quarter is 7% higher than in the previous quarter reflecting the upward trend in natural gas price that has been realized during Q1 2007. Likewise in the U.S., the natural gas price of \$7.47 per Mcf in Q1 2007 was 12% below the comparable period in 2006 but 9% higher than in the previous quarter.

The Company's average oil price decreased by 7% in Canada where most of the Company's oil is produced. Because 91% of the Company's product is natural gas, the decline in gas price resulted in a 17% decline in average price received per BOE in Q1 2007 compared to Q1 2006 but an increase of 7% versus the prior quarter.

The Company's outlook for natural gas prices is very positive for 2007. Gas storage inventories have been drawn down to more seasonal levels combined with a sharp reduction of Canadian drilling for gas. The drop in drilling activity should delay any significant increase in deliverability for the near term which should support strong natural gas prices through the year.

The Company anticipates that natural gas prices will range between \$6.50 and \$8.50 per Mcf throughout 2007. In addition, Diaz has entered into various fixed contracts through the first quarter of 2008 agreeing to sell approximately 1.4 MMcfd of natural gas at floor prices from \$7.81 per Mcf to \$8.99 per Mcf.



Revenue from Oil and Gas Production (Thousands)	Three Months Ended March 31	
	2007	2006
Canada		
Natural gas	\$ 1,964	\$ 2,613
Oil and natural gas liquids	403	778
Total - Canada	\$ 2,367	\$ 3,391
U.S.		
Natural gas	\$ 1,671	\$ 2,305
Oil and natural gas liquids	\$ 53	76
Total - U.S.	\$ 1,724	\$ 2,381
Total Production Revenue - Company	\$ 4,091	\$ 5,772

Average BOE prices realized in the first three months of 2007 were 17% lower and production was 15% lower compared to Q1 2006 resulting in an overall decline in production revenues of 29% or \$1.7 million.

In Canada, revenue declines of \$1.0 million were comprised of a \$608,000 negative price variance and \$416,000 negative volume variance compared to the prior year first quarter. In the United States, revenue declines of \$657,000 were calculated to be a \$219,000 negative price variance and \$438,000 negative volume variance compared to the prior year first quarter.

Diaz anticipates a return to higher prices and increases in natural gas production in the United States and Canada should result in production revenue growth in 2007. Increased production in the U.S. is anticipated at Provident City with the installation of additional compression and at Hound Dog with the completion of additional zones. The Hancock #2 well should also add production when the tubing has been re-installed. In Canada, additional production is anticipated as new wells are tied-in at Hays, Enchant and Jaslan.

Royalties (Thousands, except per BOE and percentage amounts)	Three Months Ended March 31	
	2007	2006
Canada		
Crown	\$ 282	\$ 311
Freehold	81	171
Alberta Royalty Tax Credit (ARTC)	0	(66)
Royalties, net of ARTC	\$ 363	\$ 416
per BOE	\$ 6.80	\$ 6.80
Royalties as a percentage of revenue	15.3%	12.3%
U.S.		
Royalties	\$ 498	\$ 715
per BOE	\$ 13.05	\$ 15.38
Royalties as a percentage of revenue	28.9%	30.0%
Total Royalties - Company	\$ 861	\$ 1,131
per BOE	\$ 9.40	\$ 11.12

In Canada, royalty rates were 3% higher during the first quarter of 2007 at 15.3% of revenue compared with an average of 12.3% in Q1 2006. The Alberta government has discontinued the Royalty Tax Credit program effective January 1, 2007, which accounts for the bulk of the



variance in the current quarter. Diaz anticipates royalty rates should average approximately 15% of revenue during 2007.

United States royalties decreased slightly as a percentage of revenue due to lower state severance taxes on certain wells producing from deep formations.

Operating and Transportation Expense (Thousands, except per BOE amounts)	Three Months Ended	
	March 31	
	2007	2006
Canada	\$ 784	\$ 693
per BOE	\$ 14.68	\$ 11.34
U.S.	\$ 192	\$ 63
per BOE	\$ 5.04	\$ 1.35
Total Expense - Company	\$ 976	\$ 756
per BOE	\$ 10.66	\$ 7.02

During the three month period ended March 31, 2007, operating costs increased in Canada and the U.S., to \$14.68 per BOE and \$5.04 per BOE respectively compared to Q1 2006. Total operating costs increased by 29% to average \$10.66 per BOE from \$7.02 per BOE in 2006. This increase is a result of prevailing cost pressure in the oil and gas sector.

Overhead & Stock Based Compensation (Thousands, except per BOE amounts)	Three Months Ended	
	March 31	
	2007	2006
Cash compensation costs	\$ 409	\$ 271
Stock based compensation costs	62	104
Other overhead costs	339	300
Recovered from third parties	(211)	(102)
Capitalized	(63)	(46)
Net overhead	\$ 536	\$ 527
per BOE	\$ 5.86	\$ 5.71

Cash compensation and other overhead costs totaled \$748,000 for Q1 2007, an increase of 31% over last year's first quarter total of \$571,000. This is attributable to general inflationary costs in the very active oil and gas sector combined with an expansion of the staffing complement and an increase in office space.

Net overhead costs increased slightly to \$536,000 for Q1 2007. Overall, lower stock based compensation costs of \$62,000 compared with \$104,000 in Q1 2006 and higher recoveries from third parties of \$211,000 versus \$102,000 in Q1 2006 were completely offset by increases to cash compensation and other overhead costs.



DIAZ RESOURCES LTD.

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Three Months Ended March 31, 2007

Interest Expense (Thousands, except per BOE and percentage amounts)	Three Months Ended March 31	
	2007	2006
Average bank debt	\$ 9,592	\$ 8,508
Interest expense	\$ 197	\$ 132
per BOE	\$ 2.15	\$ 1.22
Average interest rate	6.8%	5.0%

Total interest expense increased to \$197,000 for Q1 2007 from \$132,000 reported in Q1 2006. This was due to higher interest rates and higher average bank debt. At the end of March 2007, the Company issued \$7.1 million of convertible debentures having an interest rate of 8.75%. The increased level of debt together with the higher rate should have the effect of increasing the Company's interest costs in the future. Also, debenture issue and accretion costs will be charged to interest expense during the five year life of the debenture.

Income Taxes (Thousands)	Three Months Ended March 31	
	2007	2006
Canada		
Current tax expense	\$ 12	\$ 6
Future tax expense (recovery)	(262)	58
Total - Canada	\$ (250)	\$ 64
U.S.		
Current tax expense	\$ 34	\$ 9
Future tax expense	106	433
Total - U.S.	\$ 140	\$ 442
Total - Company	\$ (110)	\$ 506

Current taxes paid in Canada consist primarily of capital tax and Saskatchewan provincial tax, which are based on the Company's balance sheet and gross revenue in the province. In Canada, the Company has estimated income tax pools that, together with its planned exploration and development expenditures, should be sufficient to allow Diaz to defer current taxes payable during 2007.

In the United States, the Company was cash taxable in 2006. Diaz plans to increase capital spending in the U.S. during 2007. This should reduce the amount of current taxes otherwise payable; however, Diaz anticipates that it may be taxable on a current basis in 2007.

In December 2006, the Company issued \$2.0 million of flow-through shares and has to spend this amount on exploration costs prior to December 31, 2007. As of the period ended March 31, 2007, Diaz had approximately \$1.8 million remaining of this obligation.

Future income tax recovery in Canada for the three month period ended March 31, 2007, is the result of a net loss.



Depletion, Depreciation & Accretion (Thousands, except per BOE amounts)	Three Months Ended	
	March 31	
	2007	2006
Canada		
Depletion and depreciation	\$ 1,394	\$ 1,348
ARO accretion	56	42
Total - Canada	1,450	1,390
per BOE	\$ 27.14	\$ 22.72
U.S.		
Depletion and depreciation	\$ 446	\$ 321
ARO accretion	-	-
Total - U.S.	\$ 446	\$ 321
per BOE	\$ 11.70	\$ 6.90
Total - Company	\$ 1,896	\$ 1,711
per BOE	\$ 20.71	\$ 15.89

The Company's depletion, depreciation and accretion costs for Q1 2007 have increased to \$20.74 per BOE from \$15.89 per BOE in Q1 2006. The increase in the depletion rate is the result of higher finding and development costs for the Company over the last year. Depletion expense is calculated based on the Company's proved reserves. As the Company completes wells and converts probable reserves to proved, this rate should decline.

Quarterly Financial Information

(Unaudited) (Thousands, except per share amounts)	Three Months Ended							
	2007	2006				2005		
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Production (BOEd)	1,017	1,074	1,059	1,217	1,196	1,362	1,152	1,210
Price (\$/BOE)	\$ 44.70	\$ 41.86	\$ 40.82	\$ 42.63	\$ 53.63	\$ 66.83	\$ 53.42	\$ 47.03
Total revenue	\$ 3,249	\$ 3,250	\$ 3,145	\$ 3,885	\$ 4,645	\$ 6,293	\$ 4,585	\$ 4,253
Cash flow from operations	\$ 1,556	\$ 1,244	\$ 1,816	\$ 2,199	\$ 3,319	\$ 4,275	\$ 3,299	\$ 2,492
per share	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.04	\$ 0.05	\$ 0.07	\$ 0.05	\$ 0.05
Earnings (loss)	\$ (278)	\$ (314)	\$ (591)	\$ 1,353	\$ 1,007	\$ 2,094	\$ 1,101	\$ 831
per share (diluted)	\$ -	\$ -	\$ (0.01)	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.01
Fixed asset additions (net)	\$ 1,407	\$ 3,914	\$ 3,535	\$ 1,521	\$ 5,249	\$ 5,994	\$ 1,261	\$ 2,717
Total assets	\$ 59,480	\$ 59,745	\$ 58,940	\$ 55,892	\$ 56,657	\$ 56,588	\$ 50,197	\$ 48,563
Net debt *	\$ 11,648	\$ 11,235	\$ 10,387	\$ 8,701	\$ 9,310	\$ 7,475	\$ 7,651	\$ 9,604

* See Note 6, "Convertible Debentures", in the notes to the financial statements for the period ended March 31, 2007.

Diaz's production increased throughout 2005 to a high of 1,362 BOEd in Q4 2005, however, as natural gas prices began to decline in 2006, Diaz delayed development operations and production declined through the quarters to 1,017 BOEd in the first quarter of 2007. As a result of this production trend and price increase through 2005 and decrease through to Q2 2006 and then increasing again through to Q1 2007, the Company's revenues increased throughout 2005 to a high of \$6.3 million in Q4 2005 and have subsequently declined for three of the last five



quarters. This trend is also reflected in cash flow from operations and earnings over the last five periods. In Q1 2007, capital expenditures matched closely to cash flow; however, the Company's net debt increased slightly to \$11.7 million in Q1 2007 from \$11.2 million in the prior quarter.

Liquidity and Capital Resources

Diaz completed Q1 2007 with a net debt of \$11.7 million compared with \$9.3 million at the end of Q1 2006. The Company has a credit facility of \$11.5 million, of which \$6.45 million was drawn at March 31, 2007. In the first quarter of 2007, the Company completed a financing raising \$7.1 million through the issue of convertible debentures.

The Company's capital expenditure plans for 2007 are based on estimated cash flow for the year together with selective use of the proceeds from the convertible debentures financing.

Normal Course Issuer Bid

Diaz was authorized to repurchase up to 3,092,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid, which expires on September 10, 2007. Shares repurchased pursuant to the bid are cancelled.

During the three months ended March 31, 2007, Diaz did not repurchase any of its Common Shares.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Financial Reporting Update

The Canadian Institute of Chartered Accountants ("CICA") is continuously modifying the CICA Handbook with new or amended accounting standards. Diaz constantly monitors and reviews changes to the CICA Handbook and has determined that no changes were required to its accounting policies during the period ended March 31, 2007. However, several new CICA Handbook sections came into effect January 1, 2007 and were adopted by the Company. Please refer to Note 2, "Changes in Accounting Policies" in the notes to the financial statements for the period ended March 31, 2007.

In December 2006, the CICA issued a new accounting standard: Handbook Section 1535, "Capital Disclosures", requiring disclosure of information about an entity's capital and the objectives, policies, and processes for managing capital. The standard is effective for fiscal years beginning on or after October 1, 2007 and we are currently assessing the impact on the consolidated financial statements.

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Diaz are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision



in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has assessed the design of the Company's internal control over financial reporting as at December 31, 2006, and has certified that there were no changes to the controls over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Disclosure Controls and Procedures

The Company has established disclosure controls, procedures and corporate policies so that the consolidated financial results are presented accurately, fairly and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities regulation is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

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.

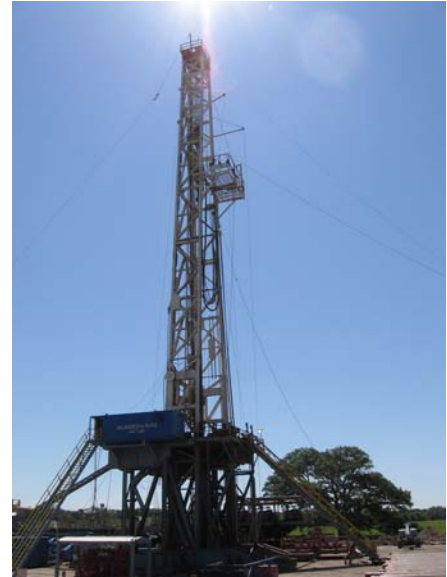
The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Diaz. To manage this risk, the Company has entered into a number of forward sales contracts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



Outlook

Natural gas storage levels in the United States and Canada have dropped substantially below last year's levels as cold temperatures in Canada and the eastern United States contributed to larger than expected draw downs during the first quarter of 2007. Meanwhile, gas targeted rig activity in Canada has reached a historic low. Both of these factors have contributed to the strengthening of natural gas prices in Q1 2007 and Diaz anticipates strong gas prices for the balance of the year.

The Company plans to continue its gas-targeted activities throughout the year. To assist in financing this program, the Company raised \$2 million of flow through shares in December 2006 and completed an issue of \$7.1 million of convertible debentures in March 2007. These two financings greatly add to the Company's financial flexibility and should permit increased drilling and the acquisition of natural gas assets while general industry conditions are steadily recovering.



H&P 149 Rig at Cheney #1
Location, April 2007



Consolidated Balance Sheet

<i>(Thousands, unaudited)</i>	March 31	December 31
As at	2007	2006
ASSETS		
Current Assets		
Cash	\$ 304	\$ 2,082
Accounts receivable	5,911	3,966
Prepaid expense	285	302
	6,500	6,350
Property, plant and equipment (Note 4)	89,731	88,306
Accumulated depletion and depreciation	(36,751)	(34,911)
	52,980	53,395
Total Assets	\$ 59,480	\$ 59,745
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 4,494	\$ 6,705
Income tax payable	197	168
Bank debt (Note 3)	6,372	10,712
	11,063	17,585
Other Liabilities		
Future income tax liability	6,182	5,757
Convertible Debenture (Note 6)	5,694	-
Asset retirement obligation (Note 7)	2,671	2,596
Total Other Liabilities	14,547	8,353
	25,610	25,938
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	18,927	19,496
Other equity (Note 6)	848	-
Contributed surplus	1,188	1,126
Retained earnings	12,907	13,185
	33,870	33,807
Total Liabilities and Shareholders' Equity	\$ 59,480	\$ 59,745

Approved by the Board:

(Signed) "R.W. Lamond" Director

(Signed) "C.A. Teare" Director



Consolidated Statement of Operations, Comprehensive Income & Retained Earnings

(Thousands, except per share amounts) (unaudited)	Three Months Ended March 31	
	2007	2006
Revenue		
Production	\$ 4,091	\$ 5,772
Royalties - net of ARTC	(861)	(1,131)
Interest and other income	19	4
	3,249	4,645
Expenses		
Operating and transportation	976	756
Overhead	474	423
Stock based compensation	62	104
Interest expense	197	132
Foreign exchange loss	32	6
Depletion, depreciation and accretion	1,896	1,711
	3,637	3,132
Earnings (loss) before income tax	(388)	1,513
Income tax		
Current expense	46	15
Future tax (recovery) expense	(156)	491
Total income tax	(110)	506
Net earnings (loss) and comprehensive income (loss) for the period	(278)	1,007
Retained earnings, beginning of period	13,185	11,782
Retained earnings, end of period	\$ 12,907	\$ 12,789
Earnings (loss) per share, basic and diluted	\$ -	\$ 0.02



Consolidated Statement of Cash Flows

<i>(Thousands, unaudited)</i>	Three Months Ended	
	March 31	
	2007	2006
Cash provided by (used for):		
Operating Activities		
Earnings (loss) for the period	\$ (278)	\$ 1,007
Non-cash items:		
Depreciation, depletion and accretion	1,896	1,711
Stock based compensation	62	104
Future tax (recovery) expense	(156)	491
Foreign exchange loss	32	6
Cash flow from operations	1,556	3,319
Change in non-cash working capital	1,288	(55)
	2,844	3,264
Investing Activities		
Property, plant & equipment - additions	(1,866)	(5,249)
Property, plant & equipment - dispositions	459	-
Change in non-cash working capital	(4,846)	(2,253)
	(6,253)	(7,502)
Financing Activities		
Convertible debenture (Note 6)	5,962	-
(Decrease) increase in bank debt	(4,340)	2,734
Common Shares		
Issued for cash on exercise of options	9	103
	1,631	2,837
(Decrease) in cash	(1,778)	(1,401)
Cash, beginning of period	2,082	1,585
Cash, end of period	\$ 304	\$ 184
Supplementary information regarding cash payments:		
Interest paid during the period	\$ 197	\$ 132
Taxes paid during the period	\$ 12	\$ 786



DIAZ RESOURCES LTD.

Notes to the Consolidated Financial Statements (Unaudited)

For the period ended March 31, 2007

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, 2006.

2. Change in Accounting Policies

The interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements, except as follows:

Comprehensive Income

The Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income, on January 1, 2007. The new standard introduces comprehensive income, which consists of net income and other comprehensive income. The Company does not currently have any other comprehensive income items.

Financial Instruments

On January 1, 2007, the Company adopted CICA Section 3855, Financial Instruments – Recognition and Measurement. This standard establishes the recognition and measurement criteria for financial assets, liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities" as defined by the standard.

Cash and cash equivalents are designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as "loans and receivables" and are carried at cost. Accounts payable are designated as "other financial liabilities" and are carried at cost. Long-term debt is designated as "other financial liabilities" and carried at amortized cost using the effective interest method. The financing costs associated with the Company's \$7.085 million private placement of unsecured convertible debentures on March 26, 2007 are included in the amortized cost of the debt. These costs are charged to interest expense using the effective interest rate method over the term of the debt, which matures on March 26, 2012.



DIAZ RESOURCES LTD.

3. Bank Debt

All credit facilities that are revolving in nature must be disclosed as liabilities. 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 as bank debt.

The Company has an \$11,500,000 secured revolving production loan with a Canadian financial institution. The facility carries an interest rate of Prime plus 0.75%, resulting in an effective rate of 6.75% at March 31, 2007, is payable on demand and is subject to an annual review by May 31, 2007. The loan is secured by an interest in certain property, a general assignment of book debts and a \$20,000,000 first floating charge demand debenture. At March 31, 2007, \$6,372,000 of the loan was outstanding (December 31, 2006 - \$10,712,000).

4. Property, Plant and Equipment

At March 31, 2007, unproven property costs of \$3,067,000 were excluded from the depletable cost base (2006 - \$7,008,000). Administrative expenses of \$260,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2006 - \$157,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. Future costs were \$5,946,000 (2006 - \$9,019,000).

5. Share Capital

Authorized

Unlimited number of Common Shares, no stated par value.

Voting rights

Common shares carry voting rights of one vote per share.

Issued

Common Shares	Number of Shares	Amount (thousands)
Total Shares Outstanding, December 31, 2006	63,847,919	\$ 19,496
Tax effect of flow-through shares	-	(578)
Issued on exercise of options	13,300	9
Total Shares Outstanding, March 31, 2007	63,861,219	\$ 18,927

Contributed Surplus	Amount (thousands)
Balance, December 31, 2006	1,126
Option compensation for the period	71
Options exercised or cancelled in 2007	(9)
Balance, March 31, 2007	\$ 1,188



Normal Course Issuer Bid

At March 31, 2007, Diaz was authorized to repurchase up to 3,092,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid, which expires on September 10, 2007. Shares repurchased pursuant to the bid are cancelled. No shares were purchased during the three month period ended March 31, 2007.

Earnings per share

The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the dilution calculations. The diluted weighted average shares outstanding for March 31, 2007, does not include the conversion of the Convertible Debentures into 7,872,222 common shares as the conversion would be anti-dilutive. The anti-dilutive effect is caused because the increase in after tax earnings from the reduced interest payments on the Debentures is higher on a per share basis than the basic earnings (loss) per share.

<i>Earnings per share</i>	Three Months Ended	
	March 31	
	2007	2006
Weighted average shares outstanding	63,859,003	61,760,150
Dilutive effect of stock options	757,688	1,661,850
Diluted weighted average shares outstanding	64,616,691	63,422,000

Stock Option Plan

As at March 31, 2007, there are a total of 4,035,000 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.68 per share. A total of 2,808,400 options with a weighted average exercise price of \$0.59 are exercisable at March 31, 2007.

Fixed Options	Three Months Ended		Year Ended	
	March 31, 2007		December 31, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	4,061,700	\$ 0.681	3,463,333	\$ 0.539
Granted	-	-	95,000	1.083
Exercised	(13,300)	0.710	(343,233)	0.355
Expired / cancelled	(13,400)	0.710	(8,401)	0.710
Outstanding, end of period	4,035,000	\$ 0.681	4,061,700	\$ 0.681
Options exercisable, end of period	2,808,400	\$ 0.589	2,821,800	\$ 0.590

The Company accounts for its stock based compensation plan using the fair value method whereby compensation costs have been recognized in the financial statements for share options granted to employees and directors. The impact on compensation costs of using the fair value method increased compensation costs for the three month period ended March 31, 2007 by \$62,000 (2006 - \$104,000).



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 (%)	Expected Life (Years)	Expected Volatility	Dividends per Share
2005	3.23	4.0	0.62	n/a
2006	4.24	4.0	0.43	n/a

No new options were issued during the three month period ended March 31, 2007.

6. Convertible Debentures

In March 2007, the Company issued unsecured subordinated convertible debentures for gross proceeds of \$7,085,000. The debentures will mature on March 26, 2012, unless earlier redeemed or converted. The principal amount of each debenture is convertible into common shares of Diaz at the option of the holder at any time prior to maturity at a conversion price of \$0.90 per share.

The debentures are compound financial instruments and as such have been recorded as a liability and as equity. The residual valuation method was used to determine the equity portion of the debentures. Under this approach, the liability component was valued first, and the difference between the proceeds of the debentures and the fair value of the liability was assigned to the equity component. The present value of the liability was calculated using a discount rate of 12% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the debentures were issued.

<i>(Thousands)</i>	Three Months	Year Ended
	Ended March 31 2007	December 31 2006
Convertible debenture net of issue costs (\$543,000)	\$ 6,542,000	\$ -
Less equity component	(848,000)	-
Liability component of debenture	\$ 5,694,000	\$ -
Adjust to cashflow		
Equity component	848,000	-
Convertible debenture receivable, net of issue costs	(580,000)	-
Cashflow portion of convertible debenture	\$ 5,962,000	\$ -

Interest on the debenture is charged to the consolidated statement of operations and retained earnings. Interest will be estimated and applied to the accounts beginning April 1, 2007.

As of March 31, 2007, debenture issue costs of \$543,000 were charged against the liability component of the debenture. These costs will be charged to interest expense over the five year life of the debenture using the effective interest rate method. Also, the liability component of the debenture will be accreted to the face value of the debenture over the five term with a resulting charge to interest expense.



7. **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:

<i>(Thousands)</i>	Three Months	Year Ended
	Ended March 31	December 31
	2007	2006
Asset Retirement Obligation, beginning of period	\$ 2,596	\$ 2,535
Liabilities incurred	18	41
Liabilities settled	-	(48)
Accretion expense	57	254
Change in estimate	-	(186)
Asset Retirement Obligation, end of period	\$ 2,671	\$ 2,596

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5,051,000, which has been discounted using an average credit-adjusted risk free rate of 9 percent. Most of these obligations are expected to be paid between 2007 and 2015.

8. **Commitments**

The Company has the following gas price contracts in place for future periods:

<u>Fixed Price</u>		<u>Fixed Price</u>		<u>Time Period for Contract</u>
<u>Volume</u>		<u>(\$/Mcf)</u>		
711 Mcfd		\$7.81		Apr 1, 2007 - Oct 31, 2007
711 Mcfd		\$8.04		Apr 1, 2007 - Oct 31, 2007
711 Mcfd		\$8.99		Nov 1, 2007 - Mar 31, 2008

<u>Costless Collar</u>		<u>Floor Price</u>	<u>Ceiling Price</u>	<u>Time Period for Contract</u>
<u>Volume</u>		<u>(\$/Mcf)</u>	<u>(\$/Mcf)</u>	
711 Mcfd		\$8.44	\$10.34	Nov 1, 2007 - Mar 31, 2008



9. 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.

<i>(Thousands)</i>	Three Months Ended March 31	
	2007	2006
Revenue (net)		
Canada	\$ 2,023	\$ 2,980
United States	1,226	1,665
	\$ 3,249	\$ 4,645
Interest Expense		
Canada	\$ 197	\$ 132
United States	-	-
	\$ 197	\$ 132
Current Taxes		
Canada	\$ 12	\$ 6
United States	34	9
	\$ 46	\$ 15
Cash Flow from Operations		
Canada	\$ 622	\$ 1,727
United States	934	1,592
	\$ 1,556	\$ 3,319
Depletion, Depreciation & Accretion		
Canada	\$ 1,450	\$ 1,390
United States	446	321
	\$ 1,896	\$ 1,711
Net Earnings (Loss)		
Canada	\$ (628)	\$ 176
United States	350	831
	\$ (278)	\$ 1,007
Additions to Property, Plant & Equipment		
Canada	\$ 1,401	\$ 2,814
United States	465	2,435
	\$ 1,866	\$ 5,249
Identifiable Assets, Net		
Canada	\$ 47,165	\$ 46,051
United States	12,315	10,606
	\$ 59,480	\$ 56,657



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Robert L. McPherson ⁽¹⁾⁽³⁾
Calgary, Alberta

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

⁽³⁾ Member of the Corporate Governance Committee

Subsidiaries

Diaz Resources, Inc.
Orbit Oil & Gas Inc.

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: DZR

Officers

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

D.K. Clark
Vice President, Operations & COO

B.R. Perry
Chief Financial Officer

C.A. Teare
Executive Vice President

C.S. Cohen
Corporate Secretary

R.D. Arsenault
Controller

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta





DIAZ RESOURCES LTD.