



Q3 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 oil prospects in Alberta and Saskatchewan.

Corporate Summary

(Unaudited) (Thousands, except per share amounts)	Nine Months Ended September 30	
	2007	2006
Financial		
Total revenue	\$ 9,112	\$ 11,675
Cash flow from operations	\$ 4,225	\$ 7,334
per share, diluted	\$ 0.07	\$ 0.12
(Loss) earnings for the period	\$ (1,437)	\$ 1,769
per share, diluted	\$ (0.02)	\$ 0.03
Capital additions	\$ 8,198	\$ 10,404
Dispositions	\$ 582	\$ 160
Net debt *	\$ 15,420	\$ 10,387
Net debt (without convertible debenture)	\$ 8,335	\$ 10,387
Total assets	\$ 59,850	\$ 58,940
Operations		
Production		
Gas (MMcfd)	4.8	6.1
Oil (Bopd)	96	138
BOEd (6 Mcf = 1 Bbl)	894	1,155
Product Prices		
Gas (\$/Mcf)	\$7.16	\$ 7.18
Oil (\$/Bbl)	\$65.81	\$ 65.90
Total shares outstanding, at period end	63,927	61,848

* 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 September 30, 2007.



To The Shareholders

Diaz's financial and operating results for the nine months ended September 30, 2007, were lower than the same period in 2006, primarily due to reduced production volumes.

During the first nine months of 2007 and 2006, North American natural gas prices were depressed due to large natural gas storage inventories; however, this has been offset in 2007 by record high oil prices. Subsequent to September 30, 2007, North American natural gas prices have been increasing. Fuel switching as a result of continued record high oil prices should provide support for the demand for natural gas, resulting in continued improvement in natural gas prices during the coming winter heating season.

Currently, the total number of rigs drilling for natural gas in Canada is significantly below the average of the last five years and the number of rigs drilling for natural gas in the U.S. has also started to decline. This should result in lower natural gas deliverability and increasing North American gas prices.

United States

In the first nine months of 2007 Diaz's focus has been on developing the Black Owl and Cheney prospects.

Cheney, Colorado County, Texas – Working Interest 20%

On July 10, 2007, drilling reached a total depth of 18,400 feet after which the well was cased. Based on the Company's log analysis, the well has encountered 40 feet of gross pay and 30 feet of potential net gas pay, in the Wilcox #18 zone, which was the primary target horizon in the well.

Completion operations, which had been hampered by weather and a change of the operator of the well, are now expected to be carried out in early 2008 with a fracture stimulation and production test of the zone.

Black Owl, Wharton County, Texas – Diaz Working Interest 24.4%

In the third quarter, Diaz participated in drilling the Black Owl #1 well which was drilled to a depth of 8,775 feet. The well encountered 14 feet of pay in the Yegua zone and was completed and flow tested at a rate of 1,300 Mcfd at 5,600 psi.

Construction of production facilities is complete and the well has been placed on production.

Canada

During the first nine months of 2007 Diaz participated in drilling and/or re-entering nine wells (3.5 net) resulting in five gas wells (1.7 net), three oil wells (1.2 net) and one dry hole (0.6 net). In the fourth quarter, Diaz plans to drill several wells including a Sawtooth oil test in the Hays area.



Alberta Royalty Changes

On October 25, 2007, the Alberta Government announced changes to the Alberta royalty framework to take effect on January 1, 2009.

We have analyzed Diaz's current profile of oil and gas properties in Alberta to determine if the new royalty framework will negatively impact Diaz's financial results. We have determined that since the majority of Diaz's production comes from shallow gas wells, the proposed royalty system may in fact result in an overall decrease in Diaz's Alberta royalties payable. However, over the longer term Diaz will have to reevaluate its exploration and development program in Alberta to take into account these proposed changes.

Diaz's oil production in Saskatchewan will not be affected by these proposed changes and Diaz's gas wells in the U.S. are located on freehold lands where the royalty rates are fixed for the life of the well before drilling commences.

Financial

Revenue for the three and nine month periods ended September 30, 2007, totalled \$2.9 million and \$9.1 million respectively compared with \$3.1 million and \$11.7 million respectively for the same periods in 2006.

Cash flow from operations for Q3 2007 decreased to \$1.1 million, or \$0.02 per share compared with \$1.8 million or \$0.03 per share in Q3 2006. Cash flow from operations for the nine month period ended September 30, 2007, was \$4.2 million or \$0.06 per share compared with \$7.3 million or \$0.12 per share in the previous year.

Diaz reported a loss for Q3 2007 of \$671,000 or \$(0.01) per share compared with a loss of \$591,000, or \$(0.01) per share, reported in Q3 2006. For the nine month period ended September 30, 2007, the Company had a loss of \$1.4 million or \$(0.02) per share versus income of \$1.8 million or \$0.03 per share in the prior year's nine month period.

Capital expenditures for the first nine months of 2007 totalled \$8.2 million compared with \$10.4 million for the same period in 2006 and were financed from cash flow, capital dispositions and a convertible debenture financing completed in the first quarter of 2007.

Diaz completed the third quarter with a net debt of \$15.5 million versus \$11.2 million at the beginning of the year. Diaz's net debt in 2007 includes \$7.1 million of convertible debentures versus none in 2006.

Production

Natural gas production for Q3 2007 decreased to 4.1 MMcfd from 5.7 MMcfd for Q3 2006 and oil production increased to average 121 Bopd for the quarter compared with 115 Bopd for the same period in 2006. For the nine month period ended September 30, 2007, natural gas production decreased 22% to 4.8 MMcfd from 6.1 MMcfd for 2006 and oil production declined 31% to average 95 Bopd compared with 138 Bopd for the same period in 2006. Over half of the natural gas production decline year to date continues to be the result of the Hancock #2 well in Texas, which has been shut-in due to mechanical problems for most of the year.



Business Outlook

Diaz anticipates that U.S. natural gas prices will continue to recover and that the World oil price will remain at record high levels. However, the strengthening of the Canadian dollar against the U.S. dollar has had a significant and negative effect on these commodity prices in Canada. In addition, the strong Canadian dollar reduces the value of our U.S. revenue and cash flow when reported in Canadian dollars. This will have a negative impact on the Company's revenue, earnings and cash flow in the future.

Diaz's exploration and development program for the fourth quarter includes additional wells in the U.S. and Canada, and new gas and oil production from wells will be completed and tied in during the quarter. Diaz believes this will somewhat offset the negative impact of the factors discussed above.

On behalf of the Board,

D.K. Clark, Chief Operating Officer

R.W. Lamond, Chairman

November 8, 2007



Management's Discussion and Analysis ("MD&A")

November 8, 2007

The following discussion and analysis is management's assessment of Diaz's historical, financial and operating results. This review should be read in conjunction with the unaudited consolidated financial statements of the Company for the nine months ended September 30, 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 89% of its production for the nine month period ended September 30, 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.

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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Gas - Canada				
Retlaw	660	699	697	845
Enchant	639	734	666	881
Jaslan	234	32	376	34
Therien	217	219	221	213
Harmattan	221	221	210	270
Carmangay	217	182	208	239
Iron Springs	46	74	53	71
Provost	40	53	47	76
Other	261	431	278	378
Gas - Canada (Mcf)	2,535	2,645	2,756	3,007
Oil & Liquids - Canada				
Parkman	20	16	20	38
Harmattan	21	40	21	47
Hays	12	-	9	-
Red Earth	8	13	8	11
Other	51	32	28	28
Oil & Liquids - Canada (Bopd)	112	101	86	124
BOEd - Canada (6 Mcf = 1 Bbl)	535	542	546	625
Gas - U.S.				
Provident City	769	1,155	851	1,117
Hound Dog	587	702	768	831
Allen Ranch	195	1,113	372	1,100
Mustang Creek	47	43	44	54
Other	(5)	4	-	5
Gas - U.S. (Mcf)	1,593	3,017	2,035	3,107
Oil & Liquids - U.S.				
Provident City	8	13	8	12
Other	1	1	1	2
Oil & Liquids - U.S. (Bopd)	9	14	9	14
BOEd - U.S. (6 Mcf = 1 Bbl)	274	517	348	532
Gas - Company (Mcf)	4,128	5,662	4,791	6,114
Oil and Liquids - Company (Bopd)	121	115	95	138
BOEd - Company	809	1,059	894	1,157



The Company's overall production for the first nine months of 2007 declined by 23% to average 894 BOEd compared to the prior period average rate of 1,157 BOEd.

United States

In the United States, normal production declines from wells on the Wilcox trend and the loss of production from the Hancock #2 well for the nine month period ended September 30, 2007, led to a 35% reduction in U.S. gas production to an average of 2.0 MMcfd compared with 3.1 MMcfd for the same period of 2006. For Q3 2007, production was 1.6 MMcfd compared with 3.0 MMcfd for the prior year period. Diaz anticipates U.S. gas production should improve during Q4 2007 when mechanical difficulties with the Hancock #2 well are expected to be rectified and the well is returned to production. Also, new production has been added from the Black Owl #1 well.

Cheney, Colorado County, Texas – Working Interest 20%

On July 10, 2007, drilling reached a total depth of 18,400 feet after which the well was cased. Based on the Company's log analysis, the well has encountered 40 feet of gross pay and 30 feet of potential net gas pay, in the Wilcox #18 zone, which was the primary target horizon in the well.

Completion operations, which had been hampered by weather and a change of the operator of the well, are now expected to be carried out in early 2008 with a fracture stimulation and production test of the well.

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

The Hancock #2 well was cased in February 2006. The well has been completed in four Wilcox gas zones. In Q2 2007, during commingling operations a hole in the production tubing was discovered at 9,500 feet. Plans are underway to replace the damaged tubing and complete the commingling operation.

Black Owl, Wharton County, Texas – Diaz Working Interest 24.4%

In the third quarter, Diaz participated in drilling the Black Owl #1 well which was drilled to a depth of 8,775 feet. The well encountered 14 feet of pay in the Yegua zone and was completed and flow tested at a rate of 1,300 Mcfd at 5,600 psi.

Construction of production facilities has been completed and the well has been placed on production.

Canada

In Canada, natural gas production for the nine month period ended September 30, 2007, declined by 8% to 2.8 MMcfd compared to production of 3.0 MMcfd in the same period of 2006. For Q3 2007, production was 2.5 MMcfd compared with 2.6 MMcfd for the prior year period. Natural declines were substantially offset by new production added from the Jaslan field.

Diaz's oil production declined by 30% for the nine month period ended September 30, 2007, to 86 Bopd compared to 124 Bopd for the same period of 2006. The primary cause of the decline was reduced output from the Parkman and Harmattan fields as higher initial field rates from 2006 have declined to the lower stabilized rates realized year to date in 2007.



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Hays, Alberta, Canada – Working Interest 80%

In November 2006, Diaz drilled an Arcs oil discovery which encountered two zones. During the second quarter 2007, Diaz completed installation of the battery and sales gas line. Testing of the both the upper and lower zones is underway. To date the well has not performed as expected, as the oil rate has been declining and the gas rate increasing. Additional development drilling will be required to properly test this structure.

Diaz also plans to drill a Sawtooth oil test in the Hays area during the fourth quarter of 2007.

Parkman, Saskatchewan, Canada – Working Interest 75 %

In the third quarter of 2007, Diaz drilled a horizontal Tilston oil well on its Parkman property located in South East Saskatchewan.

The testing of the well has resulted in a commercial oil well but the water cuts have been higher than expected. Diaz plans to rework the well in the fourth quarter in an attempt to increase the oil production.

Product Prices	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Canada				
Gas (\$/Mcf)	\$ 6.96	\$ 5.62	\$ 7.11	\$ 6.93
Oil & Liquids (\$/Bbl)	\$ 75.10	\$ 69.59	\$ 65.38	\$ 64.94
\$/BOE	\$ 48.78	\$ 40.38	\$ 46.25	\$ 45.96
U.S.				
Gas (\$/Mcf)	\$ 6.15	\$ 6.72	\$ 7.23	\$ 7.43
Oil & Liquids (\$/Bbl)	\$ 78.71	\$ 74.32	\$ 69.90	\$ 74.99
\$/BOE	\$ 38.19	\$ 41.27	\$ 44.09	\$ 45.38
\$/BOE - Company	\$ 45.19	\$ 40.82	\$ 45.41	\$ 45.82

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 half 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. Natural gas prices were higher in Q3 2007 compared with the prior year. Overall, for the nine month period gas prices have been slightly higher in Canada and slightly lower in the United States when compared to the prior year's nine month period.

In Canada, Diaz received an average price of \$6.96 per Mcf in Q3 2007, 23% higher than the comparable period in 2006. In the U.S., the natural gas price of \$6.15 per Mcf in Q3 2007 was 8.5% lower than the comparable period in 2006. For the nine month period ended September 30, 2007, the average price of natural gas realized in Canada was \$7.11 per Mcf a slight increase of 2.6% from 2006 and in the U.S. the nine month average natural gas price realized was \$7.23 per Mcf down just 2.7% over the prior year.

The Company's average oil price for the nine month period of 2007 increased by 1% in Canada where most of the Company's oil is produced. Overall, the Company's average price per BOE for



the nine month period was lower by 1% compared with the prior year nine month period as third quarter higher average prices were offset by lower prices from the first quarter.

The Company anticipates that natural gas prices for Q4 2007 will range between \$6.00 and \$7.00 per Mcf in Canada and between \$6.50 and \$7.50 per Mcf in the U.S. However, Diaz has entered into various fixed contracts through the second quarter of 2008 agreeing to sell approximately 1.7 MMcf of natural gas at floor prices from \$7.81 per Mcf to \$8.99 per Mcf which should allow the Company to realize higher than market prices during the fourth quarter of 2007.

Revenue from Oil and Gas Production (Thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Canada				
Natural gas	\$ 1,607	\$ 1,367	\$ 5,343	\$ 5,685
Oil and natural gas liquids	769	645	1,551	2,197
Total - Canada	\$ 2,376	\$ 2,012	\$ 6,894	\$ 7,882
U.S.				
Natural gas	\$ 891	\$ 1,865	\$ 4,016	\$ 6,304
Oil and natural gas liquids	\$ 62	99	\$ 177	281
Total - U.S.	\$ 953	\$ 1,964	\$ 4,193	\$ 6,585
Total Production Revenue - Company	\$ 3,329	\$ 3,976	\$ 11,087	\$ 14,467

Average BOE prices realized in the third quarter of 2007 increased 11% but production decreased by 22% compared to Q3 2006 resulting in an overall 16% reduction in production revenues for the third quarter of 2007 to \$3.3 million compared with \$3.9 million in the third quarter of 2006. For the nine month period ended September 30, 2007, average BOE prices realized were 1% lower compared to the same period of 2006 and production was 23% lower resulting in an overall reduction in production revenues of 23% to \$11.0 million compared to \$14.5 million for the nine month period in 2006.

For the nine month period of 2007, Canadian revenue declines of \$988,000 were comprised of a \$43,000 positive price variance and a \$1.0 million negative volume variance compared to 2006. In the United States, revenue declines of \$2.4 million were calculated to be the result of a \$123,000 negative price variance combined with a \$2.3 million negative volume variance compared to the prior year's nine month period.



Royalties (Thousands, except per BOE and percentage amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Canada				
Crown	\$ 137	\$ 221	\$ 536	\$ 757
Freehold	75	100	245	390
Alberta Royalty Tax Credit (ARTC)	-	(12)	-	(123)
Royalties, net of ARTC	\$ 212	\$ 309	\$ 781	\$ 1,024
per BOE	\$ 4.35	\$ 6.18	\$ 5.24	\$ 6.00
Royalties as a percentage of revenue	8.9%	15.4%	11.2%	13.0%
U.S.				
Royalties	\$ 288	\$ 572	\$ 1,252	\$ 1,835
per BOE	\$ 11.55	\$ 12.02	\$ 13.16	\$ 12.65
Royalties as a percentage of revenue	30.0%	29.1%	29.9%	27.9%
Total Royalties - Company	\$ 500	\$ 881	\$ 2,033	\$ 2,859
per BOE	\$ 6.79	\$ 9.17	\$ 8.33	\$ 9.44

In Canada, royalty rates were 13% lower during the nine month period of 2007 at 11.2% of revenue compared with an average of 13.0% for the nine month period in 2006. Diaz anticipates royalty rates should average approximately 12% - 15% of revenue during 2007. However, during the third quarter of 2007 royalties were only 8.9% of revenue compared with 15.4% in Q3 2006. The reduction in royalty for the quarter as a percentage of revenue resulted from a gain of \$421,000 included in revenue from fixed sales contracts (nil - Q3 2006) that Diaz does not pay royalty on.

In the United States, Diaz anticipates royalty rates should average approximately 27% - 30% of revenue during 2007.

Operating and Transportation Expense (Thousands, except per BOE amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Canada				
per BOE	\$ 14.86	\$ 14.97	\$ 14.30	\$ 12.86
U.S.				
per BOE	\$ 7.11	\$ 2.77	\$ 5.66	\$ 1.89
Total Expense - Company	\$ 902	\$ 878	\$ 2,671	\$ 2,468
per BOE	\$ 12.24	\$ 9.01	\$ 10.93	\$ 7.82

During the three month period ended September 30, 2007, operating costs per BOE increased in Canada and increased significantly in the U.S., to \$14.86 per BOE and \$7.11 per BOE respectively compared to Q3 2006. Total operating costs for the nine month period ended September 30, 2007, increased by 40% to average \$10.93 per BOE from \$7.82 per BOE in 2006. This increase is a result of prevailing cost pressure in the oil and gas sector. The increased cost pressure combined with lower production increases the operating cost per BOE. The negative impact is more evident in the United States where natural gas production from the Dickson #2 (Hound Dog) and Hancock #1 (Allen Ranch) wells are processed by facilities that were planned for larger gas volumes. During the fourth quarter of 2007, the Dickson #2 and Hancock #1 production is planned to be redirected by the operator to a smaller facility. This should result in both a lower operating cost and reduced the amount of gas used in processing for these two wells in 2008.



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Overhead & Stock Based Compensation <i>(Thousands, except per BOE amounts)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	Cash compensation costs	\$ 329	\$ 297	\$ 1,004
Cash compensation recovered	(46)	(15)	(148)	(51)
	283	\$ 282	\$ 856	\$ 784
Other overhead costs	454	486	1,224	1,076
Other overhead recovered	(64)	(24)	(181)	(66)
	390	462	1,043	1,010
Stock based compensation costs	27	44	162	281
Recovered from third parties	(119)	(258)	(334)	(353)
Capitalized	(66)	(44)	(181)	(136)
Net overhead	\$ 515	\$ 486	\$ 1,546	\$ 1,586
per BOE	\$ 6.99	\$ 5.27	\$ 6.33	\$ 5.11

Cash compensation and other overhead costs totalled \$1.9 million for the nine month period ended September 30, 2007, an increase of 6% over last year's nine month total of \$1.8 million. 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 during the year.

Net overhead costs increased for the third quarter and decreased slightly for the nine month period ended September 30, 2007, to \$515,000 and \$1.5 million respectively. For the nine month period ended September 30, 2007, lower stock based compensation costs of \$162,000 compared with \$281,000 in 2006 and recoveries from third parties of \$334,000 versus \$353,000 in 2006 were mostly offset by the increases to cash compensation and other overhead costs.

Interest Expense <i>(Thousands, except per BOE and percentage amounts)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	Interest expense - cash	\$ 355	\$ 167	\$ 821
Debenture accretion and issue costs	\$ 62	\$ -	\$ 121	\$ -
Interest expense	\$ 417	\$ 167	\$ 942	\$ 465
per BOE	\$ 5.67	\$ 1.72	\$ 3.86	\$ 1.47
Average interest rate	6.8%	6.8%	6.8%	6.5%
Average bank debt	\$ 6,473	\$ 9,904	\$ 8,032	\$ 9,125
Convertible debentures	\$ 7,085	\$ -	\$ 7,085	\$ -

Total interest expense increased to \$942,000 for the nine month period ended September 30, 2007, from \$465,000 reported in 2006. At the end of Q1 2007, the Company issued \$7.1 million of convertible debentures with an interest rate of 8.75%. The increased level of debt together with the higher rate of the debenture had the effect of increasing the Company's interest costs during Q2 2007 and Q3 2007 compared with Q2 2006 and Q3 2006. Also, debenture issue and accretion costs are charged to interest expense during the five year life of the debenture further increasing the interest expense.



Income Taxes (Thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Canada				
Current tax expense	\$ -	\$ 14	\$ 24	\$ 21
Future tax expense (recovery)	(226)	164	(683)	(961)
Total - Canada	\$ (226)	\$ 178	\$ (659)	\$ (940)
U.S.				
Current tax expense (recovery)	\$ (24)	\$ (172)	\$ (13)	\$ 82
Future tax expense	74	440	393	884
Total - U.S.	\$ 50	\$ 268	\$ 380	\$ 966
Total - Company	\$ (176)	\$ 446	\$ (279)	\$ 26

Current taxes paid in Canada consist 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 has increased capital spending in the U.S. during 2007 which should result in no current taxes for 2007.

In December 2006, the Company issued \$2 million of flow-through shares and has to spend this amount on exploration costs prior to December 31, 2007. As of the period ended September 30, 2007, Diaz had approximately \$1.1 million remaining of this obligation.

Future income tax recovery in Canada for the nine month periods ended September 30, 2007, is the result of net losses during those periods.

Depletion, Depreciation & Accretion (Thousands, except per BOE amounts)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Canada				
Depletion and depreciation	\$ 1,330	\$ 1,131	\$ 3,970	\$ 3,785
ARO accretion	58	52	171	161
Total - Canada	1,388	1,183	4,141	3,946
per BOE	\$ 28.51	\$ 23.74	\$ 27.79	\$ 23.12
U.S.				
Depletion and depreciation	\$ 430	\$ 553	\$ 1,285	\$ 1,326
ARO accretion	-	-	2	1
Total - U.S.	\$ 430	\$ 553	\$ 1,287	\$ 1,327
per BOE	\$ 17.25	\$ 11.62	\$ 13.52	\$ 9.15
Total - Company	\$ 1,818	\$ 1,736	\$ 5,428	\$ 5,273
per BOE	\$ 24.70	\$ 17.82	\$ 22.23	\$ 16.70

The Company's depletion, depreciation and accretion costs for the nine month period ended September 30, 2007, have increased to \$22.73 per BOE from \$16.70 per BOE for the same period of 2006. The increase in the depletion rate is the result of higher finding and development costs for the Company over the last year plus a reduction in the Company's valuation of proved reserves in the U.S.



DIAZ RESOURCES LTD.

Quarterly Financial Information

<i>(Unaudited)</i> <i>(Thousands, except</i> <i>per share amounts)</i>	Three Months Ended							
	2007			2006				2005
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
Production (BOEd)	809	868	1,017	1,074	1,059	1,217	1,196	1,362
Price (\$/BOE)	\$ 45.19	\$ 46.44	\$ 44.70	\$ 41.86	\$ 40.82	\$ 42.63	\$ 53.63	\$ 66.83
Total revenue	\$ 2,850	\$ 3,013	\$ 3,249	\$ 3,250	\$ 3,145	\$ 3,885	\$ 4,645	\$ 6,293
Cash flow from operations	\$ 1,128	\$ 1,541	\$ 1,556	\$ 1,244	\$ 1,816	\$ 2,199	\$ 3,319	\$ 4,275
per share	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.04	\$ 0.05	\$ 0.07
Earnings (loss)	\$ (671)	\$ (488)	\$ (278)	\$ (314)	\$ (591)	\$ 1,353	\$ 1,007	\$ 2,094
per share (diluted)	\$ (0.01)	\$ (0.01)	\$ -	\$ -	\$ (0.01)	\$ 0.02	\$ 0.02	\$ 0.03
Fixed asset additions (net)	\$ 2,890	\$ 3,319	\$ 1,407	\$ 3,914	\$ 3,535	\$ 1,521	\$ 5,249	\$ 5,994
Total assets	\$ 59,850	\$ 60,503	\$ 59,480	\$ 59,745	\$ 58,940	\$ 55,892	\$ 56,657	\$ 56,588
Net debt *	\$ 15,420	\$ 13,619	\$ 11,648	\$ 11,235	\$ 10,387	\$ 8,701	\$ 9,310	\$ 7,475
Net debt (excluding debentures)	\$ 8,335	\$ 6,534	\$ 4,563	\$ 11,235	\$ 10,387	\$ 8,701	\$ 9,310	\$ 7,475

* See Note 6, "Convertible Debentures", in the notes to the financial statements for the period ended September 30, 2007.

Diaz's production reached a high of 1,362 Boed in Q4 2005, however, as natural gas prices declined in 2006, Diaz delayed development operations and production dropped through the subsequent quarters to 809 Boed in the third quarter of 2007. As a result of this production trend the Company's revenues peaked in Q4 2005 to a high of \$6.3 million and have declined for six of the last seven quarters. This trend is also reflected in cash flow from operations and earnings over the last seven periods.

In Q1 2007, capital expenditures matched closely to cash flow; however, during the last two quarters Diaz increased capital investment in high impact exploration wells in Canada and the United States increasing the Company's net debt to \$15.5 million from \$11.2 million at the start of the year. Production additions from these additional investments are anticipated to be realized during the fourth quarter of 2007 and early in 2008 when the Black Owl and Cheney projects in the United States are tied in respectively.

Liquidity and Capital Resources

Diaz completed Q3 2007 with a net debt of \$15.5 million compared with \$10.4 million at the end of Q3 2006. The Company has a credit facility of \$10.5 million, of which \$7.5 million was drawn at September 30, 2007. According to the agreement, the credit facility will be reduced by \$1.5 million in September 2008 to \$9.0 million. In the first quarter of 2007, the Company completed a financing raising \$7.1 million through the issue of convertible debentures which are fully included in the net debt totals. The convertible debentures can be paid with equity rather than cash at the end of the five year term at the option of the Company.

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

The Toronto Stock Exchange has further approved a new normal course issuer bid authorizing the Company to repurchase up to 640,000 Common Shares. The current NCIB expires on September 25, 2008. Shares repurchased pursuant to the bid are cancelled.

From January 1, 2007 through to September 30, 2007, Diaz repurchased 9,000 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 September 30, 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 September 30, 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

Diaz anticipates that U.S. natural gas prices will continue to recover and that the World oil price will remain at record high levels. However, the strengthening of the Canadian dollar against the U.S. dollar has had a significant and negative effect on these commodity prices in Canada. In addition, the strong Canadian dollar reduces the value of our U.S. revenue and cash flow when reported in Canadian dollars. This will have a negative impact on the Company's revenue, earnings and cash flow in the future.

Diaz's exploration and development program for the fourth quarter includes additional wells in the U.S. and Canada, and new gas and oil production from wells will be completed and tied in during the quarter. Diaz believes this will somewhat offset the negative impact of the factors discussed above.



Consolidated Balance Sheet

(Thousands) As at	September 30 2007	December 31 2006
ASSETS	(Unaudited)	(Audited)
Current Assets		
Cash	\$ 867	\$ 2,082
Accounts receivable	2,792	3,966
Prepaid expense	413	302
	4,072	6,350
Property, plant and equipment (Note 4)	95,946	88,306
Accumulated depletion and depreciation	(40,168)	(34,911)
	55,778	53,395
Total Assets	\$ 59,850	\$ 59,745
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 4,873	\$ 6,705
Income tax payable	62	168
Bank debt (Note 3)	7,472	10,712
	12,407	17,585
Other Liabilities		
Convertible debentures (Note 6)	5,770	-
Future income tax liability	6,047	5,757
Asset retirement obligation (Note 7)	2,800	2,596
Total Other Liabilities	14,617	8,353
	27,024	25,938
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	18,943	19,496
Other equity (Note 6)	847	-
Contributed surplus	1,292	1,126
Retained earnings	11,744	13,185
	32,826	33,807
Total Liabilities and Shareholders' Equity	\$ 59,850	\$ 59,745

Approved by the Board:

(Signed) "R.W. Lamond" Director

(Signed) "C.A. Teare" Director



DIAZ RESOURCES LTD.

Consolidated Statement of Operations, Comprehensive Income (Loss) & Retained Earnings

<i>(Thousands, except per share amounts)</i> <i>(unaudited)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenue				
Production	\$ 3,329	\$ 3,976	\$ 11,087	\$ 14,467
Royalties - net of ARTC	(500)	(881)	(2,033)	(2,859)
Interest and other income	21	50	58	67
	2,850	3,145	9,112	11,675
Expenses				
Operating and transportation	902	878	2,671	2,468
Overhead	488	442	1,384	1,305
Stock based compensation	27	44	162	281
Interest expense	417	167	942	465
Foreign exchange loss	45	23	242	88
Depletion, depreciation and accretion	1,818	1,736	5,428	5,273
	3,697	3,290	10,829	9,880
Earnings (loss) before income tax	(847)	(145)	(1,717)	1,795
Income tax				
Current expense (recovery)	(24)	(158)	11	103
Future tax (recovery) expense	(152)	604	(291)	(77)
Total income tax	(176)	446	(280)	26
Net earnings (loss) and comprehensive income (loss) for the period	(671)	(591)	(1,437)	1,769
Excess of cost over paid up capital on share repurchases	(4)	(18)	(4)	(18)
Retained earnings, beginning of period	12,419	14,117	13,185	11,757
Retained earnings, end of period	\$ 11,744	\$ 13,508	\$ 11,744	\$ 13,508
Earnings (loss) per share, basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.03



DIAZ RESOURCES LTD.

Consolidated Statement of Cash Flows

<i>(Thousands, unaudited)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Cash provided by (used for):				
Operating Activities				
Earnings (loss) for the period	\$ (671)	\$ (591)	\$ (1,437)	\$ 1,769
Non-cash items:				
Interest expense (Note 6)	61	-	121	-
Depreciation, depletion and accretion	1,818	1,736	5,428	5,273
Stock based compensation	27	44	162	281
Future tax (recovery) expense	(152)	604	(291)	(77)
Foreign exchange loss	45	23	242	88
Cash flow from operations	1,128	1,816	4,225	7,334
Abandonments	-	(61)	-	(61)
Change in non-cash working capital	(60)	1,423	(963)	1,510
	1,068	3,178	3,262	8,783
Investing Activities				
Property, plant & equipment - additions	(3,010)	(3,634)	(8,198)	(10,404)
Property, plant & equipment - dispositions	120	160	582	160
Change in non-cash working capital	2,268	1,183	(145)	(2,328)
	(622)	(2,291)	(7,761)	(12,572)
Financing Activities				
Convertible debenture (net of expenses)	-	-	6,496	-
(Decrease) increase in bank debt	(50)	(201)	(3,240)	3,520
Common Shares				
Issued for cash on exercise of options	1	47	34	157
Repurchased for cancellation	(1)	(9)	(6)	(27)
	(50)	(163)	3,284	3,650
Increase (Decrease) in cash	396	724	(1,215)	(139)
Cash, beginning of period	471	722	2,082	1,585
Cash, end of period	\$ 867	\$ 1,446	\$ 867	\$ 1,446
Supplementary information regarding cash payments:				
Interest paid during the period	\$ 356	\$ 167	\$ 821	\$ 465
Taxes paid during the period	\$ 80	\$ 14	\$ 104	\$ 800



Notes to the Consolidated Financial Statements (Unaudited)

For the period ended September 30, 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

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 a \$10,500,000 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 September 30, 2007, is payable on demand and is subject to an annual review. The loan is secured by an interest in certain properties, a general assignment of book debts and a \$20,000,000 first floating charge demand debenture. At September 30, 2007, \$7.5 million of the loan was outstanding (December 31, 2006 - \$10,712,000). According to the loan agreement, the credit facility will be reduced by \$1.5 million in September 2008 to \$9.0 million.

4. Property, Plant and Equipment

At September 30, 2007, unproven property costs of \$5,599,000 were excluded from the depletable cost base (2006 - \$5,229,000). Administrative expenses of \$763,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2006 - \$417,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. Future costs were \$5,162,000 (2006 - \$5,473,000).

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	-	(581)
Issued on exercise of options	88,300	34
Repurchased for cancellation	(9,000)	(6)
Total Shares Outstanding, September 30, 2007	63,927,219	\$ 18,943



Contributed Surplus	Amount (thousands)
Balance, December 31, 2006	1,126
Option compensation for the period	171
Options exercised or cancelled in 2007	(9)
Excess of cost over paid up capital on share repurchases	4
Balance, September 30, 2007	\$ 1,292

Normal Course Issuer Bid

The Toronto Stock Exchange has further approved a new normal course issuer bid authorizing the Company to repurchase up to 640,000 Common Shares. The current NCIB expires on September 25, 2008. Shares repurchased pursuant to the bid are cancelled.

From January 1, 2007 through to September 30, 2007, Diaz repurchased 9,000 of its Common Shares.

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 September 30, 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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Weighted average shares outstanding	63,927,306	61,810,612	63,894,861	61,810,612
Dilutive effect of stock options	464,259	1,101,568	586,291	1,101,568
Diluted weighted average shares outstanding	64,391,565	62,912,180	64,481,152	62,912,180



Stock Option Plan

As at September 30, 2007, there are a total of 3,985,000 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.688 per share. A total of 3,635,000 options with a weighted average exercise price of \$0.653 are exercisable at September 30, 2007.

Fixed Options	Nine Months Ended September 30, 2007		Year Ended 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	25,000	0.620	95,000	1.083
Exercised	(88,300)	(0.370)	(343,233)	0.355
Expired / cancelled	(13,400)	(0.710)	(8,401)	0.710
Outstanding, end of period	3,985,000	\$ 0.688	4,061,700	\$ 0.681
Options exercisable, end of period	3,635,000	\$ 0.653	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 nine month period ended September 30, 2007, by \$162,000 (2006 - \$281,000).

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
2007	4.24	4.0	0.43	n/a

A total of 25,000 new options were issued during the nine month period ended September 30, 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.



(Thousands)	Nine Months Ended September 30		Year Ended December 31
	2007		2006
Convertible debenture	\$	7,085,000	\$ -
Less issue costs	\$	(589,000)	-
Less equity component		(847,000)	-
Liability component of debenture before adjustments	\$	5,649,000	\$ -
Adjustments - expensed to interest			
Accretion of liability		64,000	-
Issue costs		57,000	-
Liability component of debenture	\$	5,770,000	\$ -

As of September 30, 2007, debenture issue costs of \$589,000 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 terms 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:

(Thousands)	Nine Months Ended September 30		Year Ended December 31
	2007		2006
Asset Retirement Obligation, beginning of period	\$	2,596	\$ 2,535
Liabilities incurred		31	41
Liabilities settled		-	(48)
Accretion expense		173	254
Change in estimate		-	(186)
Asset Retirement Obligation, end of period	\$	2,800	\$ 2,596

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5,185,000 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 2008 and 2015.

8. Commitments

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

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

<u>Costless Collar</u> Volume	<u>Floor Price</u> (\$/Mcf)	<u>Ceiling Price</u> (\$/Mcf)	<u>Time Period for Contract</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		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Revenue (net)				
Canada	\$ 2,178	\$ 1,754	\$ 6,164	\$ 6,925
United States	672	1,391	2,948	4,750
	\$ 2,850	\$ 3,145	\$ 9,112	\$ 11,675
Interest Expense				
Canada	\$ 417	\$ 167	\$ 942	\$ 465
United States	-	-	-	-
	\$ 417	\$ 167	\$ 942	\$ 465
Current Taxes				
Canada	\$ -	\$ 14	\$ 24	\$ 21
United States	(24)	(172)	(13)	82
	\$ (24)	\$ (158)	\$ 11	\$ 103
Cash Flow from Operations				
Canada	\$ 719	\$ 604	\$ 2,069	\$ 3,176
United States	409	1,212	2,156	4,158
	\$ 1,128	\$ 1,816	\$ 4,225	\$ 7,334
Depletion, Depreciation & Accretion				
Canada	\$ 1,388	\$ 1,184	\$ 4,142	\$ 3,947
United States	430	552	1,286	1,326
	\$ 1,818	\$ 1,736	\$ 5,428	\$ 5,273
Net Earnings (Loss)				
Canada	\$ (532)	\$ (785)	\$ (1,673)	\$ (89)
United States	(139)	194	236	1,858
	\$ (671)	\$ (591)	\$ (1,437)	\$ 1,769
Additions to Property, Plant & Equipment				
Canada	\$ 1,726	\$ 2,134	\$ 4,294	\$ 5,928
United States	1,284	1,500	3,904	4,476
	\$ 3,010	\$ 3,634	\$ 8,198	\$ 10,404
Identifiable Assets, Net				
Canada	\$ 46,011	\$ 46,591	\$ 46,011	\$ 46,591
United States	13,839	12,349	13,839	12,349
	\$ 59,850	\$ 58,940	\$ 59,850	\$ 58,940



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⁽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.