





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 and gas prospects in Alberta and oil prospects in Saskatchewan.

Corporate Summary

(Thousands, except per share amounts) (unaudited)	Six Months Ended June 30	
	2008	2007
Financial		
Total revenue	\$ 7,746	\$ 6,262
Cash flow from operations	4,382	3,097
per share, diluted	0.07	0.05
Loss for the period	(249)	(766)
per share, diluted	0.00	(0.01)
Capital additions	4,232	5,188
Dispositions	18	462
Net current debt	8,481	6,534
Convertible debentures*	5,961	5,708
Total assets	61,114	60,503
Total shares outstanding at period end	67,218	63,929
Operations		
Production		
Gas (MMcfd)	4.4	5.1
Oil (Bopd)	155	84
BOEd (6 Mcf = 1 Bbl)	887	942
Product Prices		
Gas (\$/Mcf)	\$8.69	7.36
Oil (\$/Bbl)	\$87.50	58.90

* Convertible debentures issued in Q1 2007, have a face value of \$7.1 million and mature on March 26, 2012. See Note 7, "Convertible Debentures", in the notes to the financial statements for the six month period ended June 30, 2008.



Message to Shareholders

Diaz's second quarter 2008 revenue and cashflow continued to improve as a result of higher commodity prices and increasing production rates. This marks the second consecutive quarter of improved results.

In Canada, Diaz's production increased as a result of the Big Bend 2007 discovery well which was brought on production at 500 Mcfd on March 20, 2008, and the Leahurst 2007 discovery well which came on stream at 500 Mcfd on June 6, 2008. Diaz has an 80% working interest in both properties.

During the second quarter, Diaz participated in drilling the Ruebush #1 Well, in Lavaca County, Texas, which had an initial production rate of 15.95 MMcfd and has cumulatively produced over 500 MMcf of gas with a current flow rate of approximately 3.2 MMcfd. Diaz has a 1.4% working interest which increases to 10.0% after payout. Payout should occur during the third quarter.

Financial

Revenue for the three month period ended June 30, 2008, totalled \$4.6 million compared with \$3.0 million in Q2 2007. For the six month period, revenue totalled \$7.7 million compared with \$6.3 million for the prior year period. Cash flow from operations increased to \$2.7 million for the quarter, or \$0.04 per share compared with \$1.5 million or \$0.02 per share for Q2 2007. For the six month period, cash flow totalled \$4.4 million or \$0.07 per share compared with \$3.1 million or \$0.05 per share for the prior year period. Diaz reported earnings for the three month period of \$132,000 or nil per share versus a loss of \$488,000 or \$(0.01) per share in Q2 2007. For the six month period, Diaz had a loss of \$249,000 or nil per share versus a loss of \$766,000 or \$(0.01) per share in the prior year.

Capital expenditures for the second quarter and the six month period of 2008 totalled \$1.7 million and \$4.2 million respectively compared with \$3.3 million and \$4.7 million for Q2 2007 and the first six months of 2007. Capital expenditures for the six month period ended June 30, 2008, were financed from cash flow and an increase in bank debt.

Diaz completed the second quarter with net current debt of \$8.5 million versus \$9.4 million at the beginning of the quarter. Diaz also had convertible debentures outstanding of \$7.1 million that mature on March 26, 2012.

Production

Natural gas production for the second quarter increased slightly to 4.8 MMcfd from 4.7 MMcfd in Q2 2007. Oil production for the quarter averaged 153 Bopd compared with 78 Bopd for Q2 2007. Overall, production for the quarter was 955 BOEd for Q2 2008 compared with 868 BOEd for Q2 2007. For the six month period ended June 30, 2008, production averaged 886 BOEd compared with 942 BOEd in the prior year.

Business Outlook

During the second quarter, natural gas prices increased to the range of \$10.00 to \$12.00 per Mcf resulting from low year-on-year storage inventories in Canada and in the United States. Subsequent to the second quarter, gas prices have declined, to the range of \$7.50 to \$9.00 per Mcf, as a result of increasing gas inventories in the U.S. It is expected that natural gas prices will stay in this range until the winter heating season, unless there is a disruption of the U.S. supply, by a hurricane, or increased cooling demand in the U.S.

The Company's priority for 2008 continues to be optimization of existing properties while balancing capital investment with operating cashflow.

On behalf of the Board,

D.K. Clark, Chief Operating Officer

R.W. Lamond, Chairman

August 11, 2008



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

August 11, 2008

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 for the six months ended June 30, 2008, and the audited financial statements at December 31, 2007. 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 current debt", which is calculated as the aggregate of current assets and current liabilities.

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 beliefs at the date of the report and are based on information available to management at that time. 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 83% of its production for the six month period ended June 30, 2008, 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		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Gas - Canada				
Retlaw	954	698	913	719
Enchant	526	752	499	684
Big Bend	364	-	206	-
Therien	178	207	171	224
Carmangay	166	166	141	204
Jaslan	158	289	131	449
Leahurst	113	-	57	-
Other	596	575	566	600
Gas - Canada (Mcf/d)	3,055	2,687	2,684	2,880
Oil & Liquids - Canada				
Parkman	63	19	46	21
Lloydminster	21	-	19	-
Carmangay	15	4	16	7
Hays	6	7	6	8
Red Earth	6	11	6	8
Harmattan	5	20	6	20
Other	23	7	42	10
Oil & Liquids - Canada (Bopd)	139	68	141	74
BOEd - Canada (6 Mcf = 1 Bbl)	648	516	588	554
Gas - U.S.				
Provident City	625	860	656	897
Hound Dog	364	737	401	863
Black Owl	417	-	372	-
Allen Ranch	131	405	138	463
Other	223	50	141	45
Gas - U.S. (Mcf/d)	1,760	2,052	1,708	2,268
Oil & Liquids - U.S.				
Provident City	5	9	6	8
Black Owl	6	-	6	-
Other	3	1	2	2
Oil & Liquids - U.S. (Bopd)	14	10	14	10
BOEd - U.S. (6 Mcf = 1 Bbl)	307	352	299	388
Gas - Company (Mcf/d)	4,815	4,739	4,392	5,148
Oil and Liquids - Company (Bopd)	153	78	155	84
BOEd - Company	955	868	887	942

The Company's overall production for the six months ended June 30, 2008, decreased 6% to 886 BOEd compared with the prior year six month period average of 942 BOEd; however, current quarter production increased by 10% to average 955 BOEd compared with the Q2 2007 average rate of 868 BOEd.



United States Exploration

In the second quarter of 2008 Diaz participated in the drilling and completion of the Ruebush #1 gas well and the completion of the Robertson #1 gas well. The Allen Estate well was cased in the second quarter but the completion, which was carried out in the third quarter, was not successful.

Ruebush #1 Well, Lavaca County Texas – BPO WI 1.4 %: APO WI 10 %

The Ruebush #1 well was completed and put on stream on June 18, 2008 at an initial rate of 15.95 MMcfd. The zone was produced, without stimulation, until July 14, 2008.

A fracture stimulation was carried out in July and the well put back on stream. The well is currently producing 3.2 MMcfd and has cumulatively produced over 500 MMcf of gas. Based on the Company's interpretation of the seismic and geology there are two more development locations which could be drilled on this structure.

Canadian Exploration and Development

During the first six months of 2008, Diaz participated in one significant workover, one new gas well and completed and brought on production two of its discovery wells from Q4 2007.

SOUTHEAST SASKATCHEWAN

Parkman Area – Diaz Working Interest 75%

During Q1 2008, Diaz conducted workover activities on the 9-9-8-33 W1 horizontal well with the objective of isolating oil production from a different section of the horizontal leg. Prior to the operation the well was averaging approximately 6-8 Bopd of light oil. After the successful workover the well has been producing 70 Bopd since early March 2008.

Diaz's 75% working interest resulted from certain partners not participating in the latest completion operation. Diaz expects the penalty provisions of the joint venture will be satisfied by mid summer and at that time it's working interest will revert to 37.5%.

Retlaw, Alberta

In Retlaw, Alberta, a new gas well was drilled and completed during the quarter. The well came on production in March 2008 and is currently producing at a flow rate of 1,000 Mcfd. Diaz has a 17% working interest in the well.

Diaz currently plans to drill three to five wells in the fall of 2008 as part of an infill program on the property. Diaz's working interests in the infill wells range from 25% to 50%.

Winter 2007 Natural Gas Discovery's

Diaz's production increased in the quarter as a result of the Big Bend 2007 discovery well which was brought on production at 500 Mcfd on March 20, 2008, and the Leahurst 2007 discovery well which came on stream at 500 Mcfd on June 6, 2008. Diaz has an 80% working interest in both properties. Diaz was able to expand it's land holdings around these discoveries in the July 2008 round of land sales in Alberta which will allow the company to follow up with drilling on additional prospects.



Operating Results

Product Prices	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
Gas (\$/Mcf)	\$ 8.51	\$ 7.25	\$ 8.38	\$ 7.17
Oil & Liquids (\$/Bbl)	\$ 102.32	\$ 61.15	\$ 85.88	\$ 57.98
\$/BOE	\$ 62.02	\$ 45.83	\$ 58.78	\$ 45.03
U.S.				
Gas (\$/Mcf)	\$ 10.95	\$ 7.79	\$ 9.18	\$ 7.61
Oil & Liquids (\$/Bbl)	\$ 118.26	\$ 67.45	\$ 104.73	\$ 66.00
\$/BOE	\$ 68.13	\$ 47.33	\$ 57.29	\$ 46.18
\$/BOE - Company	\$ 63.99	\$ 46.44	\$ 58.28	\$ 45.50

For the six months ended June 30, 2008, Canadian gas prices averaged \$8.38 per Mcf or 17% higher than in the same period last year while in the United States average gas prices of \$9.18 per Mcf were 20.6% higher than in the prior year six month period. For the quarter, Canadian and American gas prices averaged \$8.51 per Mcf and \$10.95 per Mcf respectively considerably higher than Q2 2007 gas prices of \$7.25 per Mcf and \$7.79 per Mcf respectively.

In Canada, natural gas revenue for Q2 2008 include a cost from fixed priced sales contracts of \$294,000 which decreases the average realized price by \$(1.06) per Mcf compared with a benefit of \$82,000 or \$0.34 per Mcf in Q2 2007. Without the fixed price natural gas sales contracts in place Diaz would have realized a price of \$9.57 per Mcf for Q2 2008 (2007 - \$6.91) – a price 38% higher than Q2 2007. For the six month period, costs for the sales contract totalled \$162,000 or \$(0.53) per Mcf versus a benefit of \$196,000 in the prior year or \$0.17 per Mcf.

For the six months ended June 30, 2008, oil prices in Canada averaged \$85.88 per barrel, an increase of 48% over same period last year, while oil prices in the US increased 59% to \$104.73 per barrel compared with the same period in 2007.

Overall, the Company's average price per BOE for Q2 2008 was \$63.99, 38% higher than in Q2 2007. For the six month period the Company's average price per BOE was \$58.28, 28% higher than in the prior year period.

Revenue from Oil and Gas Production (\$ Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
Natural gas	\$ 2,366	\$ 1,773	\$ 4,090	\$ 3,736
Oil and natural gas liquids	1,291	378	2,199	782
Total - Canada	3,657	2,151	6,289	4,518
U.S.				
Natural gas	1,754	1,454	2,855	3,125
Oil and natural gas liquids	153	62	253	115
Total - U.S.	1,907	1,516	3,108	3,240
Total Production Revenue - Company	\$ 5,564	\$ 3,667	\$ 9,397	\$ 7,758

Average BOE prices realized in the second quarter of 2008 increased approximately 38% over Q2 2007 and combined with a 10% increase in production resulted in a 52% increase in total production revenue for the quarter compared with Q2 2007. For the six month period, average BOE prices were 28% higher than the prior year period but were offset by a production decrease of 6% resulting in a net 21% increase in production revenues to \$9.4 million from \$7.8 million in the prior year period.



Royalties (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
Crown	\$ 372	\$ 117	\$ 665	\$ 399
Freehold	167	89	255	170
Royalties	\$ 539	\$ 206	\$ 920	\$ 569
per BOE	\$ 9.14	\$ 4.39	\$ 8.61	\$ 5.68
Royalties as a percentage of revenue	14.1%	9.6%	14.2%	12.6%
U.S.				
Royalties	\$ 609	\$ 466	\$ 928	\$ 964
per BOE	\$ 21.76	\$ 14.55	\$ 17.10	\$ 13.74
Royalties as a percentage of revenue	31.9%	30.7%	29.8%	29.8%
Total Royalties - Company	\$ 1,148	\$ 672	\$ 1,848	\$ 1,533
per BOE	\$ 21.76	\$ 8.52	\$ 11.46	\$ 8.99

In Canada, royalty rates increased 49% during the second quarter of 2008 to 14.3% of revenue compared with an average of 9.6% in Q2 2007. The primary reason for the increase in royalties as a percentage of revenue during the quarter was the effect of fixed price natural gas contracts which realized an additional cost of \$294,000 (Q2 2007 – benefit \$82,000) lowering revenues without an offsetting reduction of the royalty charge. For the six month period, Canadian royalties increased to 14.2% of revenue compared with 12.6% of revenues primarily due to the additional cost of fixed price contracts during the period of \$162,000 versus a benefit of \$196,000 in the prior year period. Diaz anticipates royalty rates before the effect of natural gas fixed price contracts should average approximately 14% - 16% of Canadian revenue during 2008.

In the United States, royalties increased slightly to 31.9% of revenue for the second quarter of 2008 compared with 30.7% for Q2 2007. For the six month period, United States royalties remained at 29.8% of revenue for the current and prior year periods. Diaz expects royalty rates to average 28% - 31% of U.S. revenue during 2008.

Operating and Transportation Expense (\$ Thousands, except per BOE amount)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
per BOE	\$ 16.96	\$ 13.28	\$ 16.37	\$ 14.02
U.S.				
per BOE	\$ 3.38	\$ 5.26	\$ 3.37	\$ 5.14
Total Expense - Company	\$ 1,094	\$ 793	\$ 1,933	\$ 1,769
per BOE	\$ 12.59	\$ 10.66	\$ 12.00	\$ 10.37

In Canada, Q2 2008 operating costs increased to \$16.96 per BOE compared with \$13.28 per BOE in Q2 2007. For the six month period, operating costs increased to \$16.37 per BOE compared with \$14.02 per BOE in the prior year period primarily due to prior period adjustments.

In the U.S., operating costs per BOE decreased to \$3.38 per BOE for the second quarter of 2008 compared with \$5.26 per BOE in Q2 2007. For the sixth month period, U.S. operating costs decreased to \$3.37 per BOE compared with \$5.14 per BOE in the prior year period. The reduced operating cost resulted from redirecting the Dickson #2 (Hound Dog field) production and the Hancock #1 production (Allen Ranch field) to smaller facilities. Also, new production added in Q2 2008 from the Robertson #1 well (N.W. Speaks field) has relatively lower operating costs.

In total, operating costs for Q2 2008 increased by 38% to \$1.1 million compared with \$793,000 in Q2 2007. For the sixth month period, operating costs remain relatively stable at \$1.9 million compared with \$1.8 million for the prior year period.



Overhead & Stock Based Compensation (\$ Thousands, except per BOE amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Cash compensation costs	\$ 336	\$ 329	\$ 675	\$ 675
Cash compensation recovered	(56)	(59)	(113)	(117)
Net cash compensation	280	270	562	558
Other overhead costs	323	368	635	770
Other overhead recovered	(53)	(51)	(106)	(103)
Net other overhead	270	317	529	667
Total cash overhead	550	587	1,091	1,225
Stock based compensation costs	12	73	24	135
Recovered from third parties	(102)	(113)	(201)	(214)
Capitalized	(50)	(52)	(105)	(115)
Net overhead	410	495	809	1,031
per BOE	\$ 5.36	\$ 6.27	\$ 6.50	\$ 6.05

Cash compensation and other overhead costs totalled \$336,000 for Q2 2008, a 2% increase compared with Q2 2007. For the current and prior year sixth month period, cash compensation costs held steady at \$675,000.

Net overhead costs for the sixth month period decreased 22% to \$808,000 compared with \$1 million for the prior year period. Most of this decrease resulted from the reduction in other overhead costs combined with a lower stock based compensation charge.

Interest Expense (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Interest expense	\$ 306	\$ 268	\$ 606	\$ 465
Debenture accretion and issue costs	65	60	128	60
Interest expense	371	328	734	525
per BOE	4.26	4.15	4.55	3.08
Average interest rate on bank debt	5.6%	6.8%	6.0%	6.8%
Average bank debt	9,055	6,473	9,219	8,032
Interest rate on convertible debentures	8.75%	8.75%	8.75%	8.75%
Convertible debentures - face value	\$ 7,085	\$ 7,085	\$ 7,085	\$ 7,085

Total interest expense increased to \$371,000 for Q2 2008 compared with \$328,000 in Q2 2007. The increase resulted from a higher level of overall debt offset partially by lower interest rates relating to the bank debt. For the sixth month period, interest expense was higher than the prior year period due to higher bank debt and additional debenture accretion and issue costs offset by lower bank interest rates.



Income Taxes (\$ Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
Current tax expense	\$ 9	\$ 12	\$ 9	\$ 24
Future tax expense (recovery)	113	(195)	(11)	(457)
Total - Canada	122	(183)	(2)	(433)
U.S.				
Current tax expense	29	(23)	31	11
Future tax expense (recovery)	150	212	204	318
Total - U.S.	179	189	235	329
Total - Company	\$ 301	\$ 6	\$ 233	\$ (104)

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 2008. Future tax recoveries in Canada result from reduced tax rates anticipated in future years.

In the United States, the Company was cash taxable in 2006 but due to increased capital spending during 2007 did not have any current Federal tax. Diaz plans to incur additional costs and develop several of its properties during 2008. These expenditures should allow it to defer current taxes during 2008.

In December 2007, the Company issued \$1 million of flow-through shares and has \$90,000 remaining to spend on exploration costs prior to December 31, 2008. The tax deduction from these expenditures has been renounced to the purchasers of the flow-through shares.

Depletion, Depreciation & Accretion (\$ Thousands, except per BOE Amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Canada				
Depletion and depreciation	\$ 1,553	\$ 1,246	\$ 2,840	\$ 2,639
ARO accretion	64	57	129	113
Total - Canada	1,617	1,303	2,969	2,752
per BOE	27.41	27.79	27.76	27.45
U.S.				
Depletion and depreciation	662	410	1,263	856
ARO accretion	1	1	3	2
Total - U.S.	663	411	1,266	858
per BOE	23.70	12.83	23.32	12.22
Total - Company	2,280	1,714	4,235	3,610
per BOE	\$ 26.22	\$ 21.72	\$ 26.27	\$ 21.18

For the six month period, the Company's depletion, depreciation and accretion costs have increased to \$26.27 per BOE compared with \$21.18 per BOE for the prior year period. The increase in depletion rate is the result of higher finding and development costs for the Company over the past two years. Depletion expense is calculated based on the Company's proved reserves.



Quarterly Financial Information

(\$ Thousands, except production and per share amounts)	Three Months Ended							
	2008			2007			2006	
	Jun 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30
Production (BOEd)	955	816	773	809	868	1,017	1,074	1,059
Price (\$/BOE)	\$ 63.99	\$ 51.59	\$ 46.82	\$ 45.19	\$ 46.44	\$ 44.70	\$ 41.86	\$ 40.82
Total revenue	4,576	3,170	2,970	2,850	3,013	3,249	3,250	3,145
Cash flow from operations per share	2,739 0.04	1,643 0.02	1,204 0.02	1,128 0.02	1,541 0.02	1,556 0.02	1,244 0.02	1,816 0.03
Earnings (loss) per share (diluted)	132 0.00	(381) (0.01)	(168) 0.00	(671) (0.01)	(488) (0.01)	(278) 0.00	(314) 0.00	(591) (0.01)
Fixed asset additions (net)	1,735	2,479	2,384	2,890	3,319	1,407	3,914	3,535
Total assets	61,114	61,221	60,794	59,850	60,503	59,480	59,745	58,940
Convertible debenture*	5,961	5,896	5,832	5,770	5,708	5,694	-	-
Net current debt	8,481	9,404	8,542	8,335	6,534	4,563	11,235	10,387

* Convertible debentures issued in Q1 2007, have a face value of \$7.1 million and mature on March 26, 2012. See Note 7, "Convertible Debentures", in the notes to the financial statements for the six months ended June 30, 2008.

Diaz's production rates steadily declined during the 2007 year; however, during the last two quarters the production rates have been on the rise. Average oil and natural gas prices have been increasing steadily during the last two years and have dramatically increased during the last two quarters. The Company's revenues are significantly higher in the current quarter as a result of the production trend combined with record oil and natural gas prices. This marks three straight quarters of increasing revenues and cashflow as increasing prices offset production declines three quarters ago. This trend is also reflected in cash flow from operations and earnings over the last two years. Cashflow exceeded capital expenditures during the current quarter which resulted in the Company's net current debt reducing to \$8.5 million.

Liquidity and Capital Resources

Diaz completed Q2 2008 with a net current debt of \$8.5 million compared with \$6.5 million at the end of Q2 2007. The Company has a credit facility of \$10.5 million, of which \$9.1 million was drawn at June 30, 2008. According to the agreement, the credit facility will be reduced by \$1.5 million at the end of September 2008 to \$9.0 million.

In addition, at June 30, 2008, the Company had convertible debentures of \$7.1 million that mature on March 26, 2012. The convertible debentures include terms which provide for the repayment of the principal with equity rather than cash at the end of the term at the option of the Company. In December 2007, the Company completed a \$1.0 million flow-through financing.

The Company's capital expenditure plans for 2008 are based on its estimated cash flow for the year.

Normal Course Issuer Bid

Diaz is authorized to repurchase up to 640,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid ("NCIB"), which expires on September 25, 2008. Shares repurchased pursuant to the bid are cancelled.

Diaz repurchased 20,700 shares during the first six months of 2008.



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.

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 revising 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 three month period ended March 31, 2008. However, four new Handbook Sections were adopted in the first quarter which affect disclosure and presentation:

- 1) Handbook Section 1535, "Capital Disclosures",
- 2) Handbook Section 3862, "Financial Instruments – Disclosures" and Handbook Section 3863, "Financial Instruments – presentation", and
- 3) Handbook Section 1400, "General Standards of Financial Statement Presentation".

Please refer to Note 2, "Changes in Accounting Policies" in the notes to the financial statements for the six months ended June 30, 2008.

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, 2007, 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.

Outlook

During the second quarter, natural gas prices increased to the range of \$10.00 to \$12.00 per Mcf resulting from low year-on-year storage inventories in Canada and in the United States. Subsequent to the second quarter, gas prices have declined, to the range of \$7.50 to \$9.00 per Mcf, as a result of increasing gas inventories in the U.S. It is expected that natural gas prices will stay in this range until the winter heating season, unless there is a disruption of the U.S. supply, by a hurricane, or increased cooling demand in the U.S.

The Company's priority for 2008 continues to be optimization of existing properties while balancing capital investment with operating cashflow.



Consolidated Balance Sheet

(\$ Thousands, Unaudited) As at	June 30 2008	December 31 2007
ASSETS		
Current Assets		
Cash	\$ 453	\$ 558
Accounts receivable	3,135	2,988
Income tax receivable	301	292
Prepaid expense	375	289
	4,264	4,127
Property, plant and equipment (Note 4)	102,831	98,541
Accumulated depletion and depreciation	(45,981)	(41,874)
	56,850	56,667
Total Assets	\$ 61,114	\$ 60,794
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,623	\$ 4,589
Income tax payable	-	28
Bank debt (Note 3)	9,122	8,052
	12,745	12,669
Other Liabilities		
Convertible debentures (Note 7)	5,961	5,832
Future income tax liability	6,024	5,498
Asset retirement obligation (Note 8)	3,159	3,069
Total Other Liabilities	15,144	14,399
	27,889	27,068
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	19,710	19,986
Other equity (Note 7)	847	847
Contributed surplus	1,337	1,313
Retained earnings	11,331	11,580
	33,225	33,726
Total Liabilities and Shareholders' Equity	\$ 61,114	\$ 60,794

Approved by the Board:

(Signed) "R.W. Lamond" Director

(Signed) "C.A. Teare" Director



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

(\$ Thousands, except per share amounts, unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Revenue				
Production	\$ 5,564	\$ 3,667	\$ 9,397	\$ 7,758
Royalties	(1,148)	(672)	(1,848)	(1,533)
Interest and other income	160	18	197	37
	4,576	3,013	7,746	6,262
Expenses				
Operating and transportation	1,094	793	1,933	1,769
Overhead	398	422	785	896
Stock based compensation	12	73	24	135
Interest expense	371	328	734	525
Foreign exchange (gain) loss	(12)	165	51	197
Depletion, depreciation and accretion	2,280	1,714	4,235	3,610
	4,143	3,495	7,762	7,132
Earnings (loss) before income tax	433	(482)	(16)	(870)
Income tax				
Current expense (recovery)	38	(11)	40	35
Future tax expense (recovery)	263	17	193	(139)
Total income tax	301	6	233	(104)
Net earnings (loss) and comprehensive income (loss) for the period	132	(488)	(249)	(766)
Retained earnings, beginning of period	11,199	12,907	11,580	13,185
Retained earnings, end of period	\$ 11,331	\$ 12,419	\$ 11,331	\$ 12,419
Earnings (loss) per share, basic and diluted	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)



Consolidated Statement of Cash Flows

(\$ Thousands, unaudited)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Cash provided by (used for):				
Operating Activities				
Earnings (loss) for the period	\$ 132	\$ (488)	\$ (249)	\$ (766)
Non-cash items:				
Interest expense	64	60	128	60
Depreciation, depletion and accretion	2,280	1,714	4,235	3,610
Stock based compensation	12	73	24	135
Future tax expense (recovery)	263	17	193	(139)
Foreign exchange (gain) loss	(12)	165	51	197
Cash flow from operations	2,739	1,541	4,382	3,097
Abandonments	(75)	-	(117)	-
Change in non-cash working capital	(574)	(2,191)	(397)	(903)
	2,090	(650)	3,868	2,194
Investing Activities				
Property, plant & equipment - additions	(1,753)	(3,322)	(4,232)	(5,188)
Property, plant & equipment - dispositions	18	3	18	462
Change in non-cash working capital	11	2,433	(819)	(2,413)
	(1,724)	(886)	(5,033)	(7,139)
Financing Activities				
Convertible debenture (net of expenses)	-	534	-	6,496
Increase (decrease) in bank debt	(491)	1,150	1,070	(3,190)
Common Shares				
Issued for cash on exercise of options	-	24	-	33
Share issue costs	-	-	(5)	(5)
Repurchased for cancellation	(3)	(5)	(5)	-
	(494)	1,703	1,060	3,334
Increase (decrease) in cash	(128)	167	(105)	(1,611)
Cash, beginning of period	581	304	558	2,082
Cash, end of period	\$ 453	\$ 471	\$ 453	\$ 471
Supplementary information regarding cash payments:				
Interest paid during the period	\$ 150	\$ 268	\$ 295	\$ 465
Taxes paid during the period	\$ 9	\$ 12	\$ 26	\$ 24



Notes to the Consolidated Financial Statements (Unaudited)

For the six month period ended June 30, 2008

1. Accounting Policies

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Diaz Resources, Inc. and Orbit Oil & Gas Inc.

The interim consolidated financial statements of Diaz Resources Ltd. have been prepared in accordance with accounting principles generally accepted in Canada. Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect Diaz's financial position or results of operations. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted for this interim report. The reader should refer to the annual consolidated financial statements of Diaz at December 31, 2007.

2. Change in Accounting Policies

The Handbook Sections adopted in the first quarter affect disclosure and presentation requirements but did not result in a change of accounting policy. The new Handbook Sections adopted are:

- 1) Handbook Section 1535, "Capital Disclosures", requires disclosure of information about Diaz's capital and the objectives, policies, and processes for managing capital;
- 2) Handbook Section 3862, "Financial Instruments – Disclosures" and Handbook Section 3863, "Financial Instruments – presentation", were created to expand upon and replace Handbook Section 3861, "Financial Instrument Disclosures and Presentation"; and
- 3) Handbook Section 1400, "General Standards of Financial Statement Presentation" which aligns Canadian standards of financial statement presentation with those of the International Financial Reporting Standards ("IFRS"). The section includes new required disclosure if an entity is not preparing statements on a going concern basis which does not apply to Diaz as it is a going concern.

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 a \$10.5 million secured revolving production loan with a Canadian financial institution. The facility has two rates. The first \$9.0 million of the facility carries an interest rate of Prime plus 0.75%, resulting in an effective rate of 5.50% at June 30, 2008. The next \$1.5 million carries an interest rate of Prime plus 2.0%, resulting in an effective rate of 6.75% at June 30, 2008. The loan is payable on demand and is subject to an annual review by September 2008. 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 June 30, 2008, \$9,122,000 of the loan was outstanding (December 31, 2007 - \$8,052,000).



4. Property, Plant and Equipment

At June 30, 2008, unproven property costs of \$799,000 were excluded from the depletable cost base (June 30, 2007 - \$4,452,000). For the six month period ended June 30, 2008, administrative expenses of \$500,000 related to exploration and development activities were capitalized as part of property, plant and equipment (year to date 2007 - \$499,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At June 30, 2008, future costs were \$4,106,000 (June 30, 2007 - \$5,407,000).

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

	Number of Shares	Amount (thousands)
Common Shares		
Balance, December 31, 2007	67,238,552	\$ 19,986
Tax effect of flow-through shares	-	(266)
Share issue costs		(5)
Repurchased for cancellation	(20,700)	(5)
Total Shares Outstanding, June 30, 2008	67,217,852	\$ 19,710

	Amount (thousands)
Contributed Surplus	
Balance, December 31, 2007	\$ 1,313
Option compensation for the period	24
Balance, June 30, 2008	\$ 1,337

Normal Course Issuer Bid

During the six months ended June 30, 2008, Diaz repurchased 20,700 of its Common Shares at an average price of \$0.23 per share.

Diaz was authorized to repurchase up to 640,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid, which expires on September 25, 2008. Shares repurchased pursuant to the bid are cancelled.

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 June 30, 2008, 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.

Basic earnings (loss) per share are calculated by dividing the weighted average number of the aggregate outstanding shares during the period into net earnings (loss) attributable to the shareholders.



Diluted earnings per share are calculated by dividing the diluted weighted average number of aggregate outstanding shares during the period in the net earnings for the period. Diluted loss per share is calculated by dividing the basic weighted average aggregate outstanding shares into the loss for the period as using the diluted weighted average shares would be anti-dilutive. Stock options are not shown to be dilutive in the 2008 three and six month periods as they were all out-of-the-money compared with the average stock prices during those periods.

Shares Outstanding	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Weighted average shares outstanding	67,228,758	63,897,614	67,231,060	63,878,392
Dilutive effect of stock options	-	578,533	-	658,653
Diluted weighted average shares outstanding	67,228,758	64,476,147	67,231,060	64,537,045

Stock Option Plan

As at June 30, 2008, there are a total of 2,410,000 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.791 per share. A total of 2,276,600 options with a weighted average exercise price of \$0.787 are exercisable at June 30, 2008.

Fixed Options	Six Months Ended		Year Ended	
	June 30, 2008		December 31, 2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	3,575,000	\$ 0.645	4,061,700	\$ 0.645
Granted	-	-	100,000	0.463
Exercised	-	-	(93,300)	(0.367)
Expired / cancelled	(1,165,000)	(0.344)	(493,400)	(0.956)
Outstanding, end of period	2,410,000	\$ 0.791	3,575,000	\$ 0.645
Options exercisable, end of period	2,276,600	\$ 0.787	3,291,600	\$ 0.621

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 and six month period ended June 30, 2008, by \$11,000 and \$23,000 respectively (Q2 2007 - \$73,000 / YTD 2007 - \$135,000).

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
2006	4.24	4.0	0.43	n/a
2007	4.28	4.0	0.61	n/a

On July 23, 2008, the Company issued 2,497,500 new stock options to staff, officers and directors with an exercise price of \$0.25 per share. Also, the Company re-priced 710,000 existing options held by staff to have an exercise price of \$0.25 per share.

6. Capital Disclosures

Diaz's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and



- To provide an adequate return to shareholders by investing in oil and gas activities commensurate with the level of risk management deems acceptable.

Diaz sets the level of capital in proportion to its risk of achieving sufficient annualized operating cashflows to maintain its net current debt repayability ratio to less than twenty-four months repayability. The Company makes adjustments to capital in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure Diaz may issue new shares, sell assets or increase its debt.

The ratio of net current debt to annualized cashflow from operations is the primary ratio of capital that Diaz uses. Net current debt repayability is a calculation to determine the number of months required to repay net current debt from current cashflow from operations. The ratio is calculated as follows:

Net Current Debt Repayability (Thousands, except for months)	Six Months Ended June 30	
	2008	2007
Current liabilities	\$ 12,745	\$ 12,394
Less Current assets	4,264	5,860
Net current debt	8,481	6,534
Annualized Cashflow from Operations	8,764	6,194
Months estimated to repay net current debt	11.61	12.66

The decrease in net current debt repayability for the six month period ended June 30, 2008, compared with the prior year period resulted from increased levels of annualized cashflows as the Company realized record oil and natural gas prices while also increasing its production rates. This offset increased net current debt levels caused by capital expenditures that exceeded cashflow from operations during 2007. During the second quarter of 2008, several of the 2007 projects began production of natural gas which resulted in an increase in cashflow from operations and reduced the ratio. Management's plan for the current year is to match overall capital spending with anticipated operating cashflows for the year.

The Company's \$10.5 million credit facility imposes a similar capital restriction except that the required ratio must be less than thirty-six months repayability.

7. 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)	Six Months Ended June 30 2008	Year Ended December 31 2007
Convertible debenture	\$ 5,832,000	\$ 7,085,000
Less issue costs	-	(589,000)
Less equity component	-	(848,000)
Liability component of debenture before adjustments	5,832,000	5,648,000
Adjustments - expensed to interest		
Accretion of liability	71,000	93,000
Issue costs	58,000	91,000
Liability component of debenture	\$ 5,961,000	\$ 5,832,000

As of June 30, 2008, 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.

8. 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)	Six Months Ended June 30 2008	Year Ended December 31 2007
Asset Retirement Obligation, beginning of period	\$ 3,069	\$ 2,596
Liabilities incurred	8	79
Liabilities settled	(50)	-
Accretion expense	132	244
Change in estimate	-	150
Asset Retirement Obligation, end of period	\$ 3,159	\$ 3,069

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5,016,000 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.

9. Commitments

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

Fixed Price Volume	Fixed Price (\$/Mcf)	Time Period for Contract
948 Mcfd	7.39	July 1, 2008 - Oct 31, 2008
474 Mcfd	8.20	July 1, 2008 - Oct 31, 2008
948 Mcfd	8.65	Nov 1, 2008 - Mar 31, 2009
474 Mcfd	8.94	Nov 1, 2008 - Mar 31, 2009

The Company issued \$1 million of flow-through shares in December 2007 and has \$94,000 remaining to spend on exploration costs prior to December 31, 2008.



10. Financial Instruments

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.

The Company’s financial instruments that are included in the balance sheet are comprised of cash, accounts receivable and all current liabilities.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit risk

A substantial portion of the Company’s accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Interest rate risk

The Company is exposed to risks from interest rate fluctuation on its bank loan.



11. 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.

(\$ Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Revenue (net)				
Canada	\$ 3,278	\$ 1,963	\$ 5,566	\$ 3,986
United States	1,298	1,050	2,180	2,276
	\$ 4,576	\$ 3,013	\$ 7,746	\$ 6,262
Interest Expense				
Canada	\$ 371	\$ 328	\$ 734	\$ 525
United States	-	-	-	-
	\$ 371	\$ 328	\$ 734	\$ 525
Current Taxes				
Canada	\$ 7	\$ 12	\$ 9	\$ 24
United States	31	(23)	31	11
	\$ 38	\$ (11)	\$ 40	\$ 35
Cash Flow from Operations				
Canada	\$ 1,617	\$ 728	\$ 2,529	\$ 1,350
United States	1,122	813	1,853	1,747
	\$ 2,739	\$ 1,541	\$ 4,382	\$ 3,097
Depletion, Depreciation & Accretion				
Canada	\$ 1,617	\$ 1,304	\$ 2,970	\$ 2,754
United States	663	410	1,265	856
	\$ 2,280	\$ 1,714	\$ 4,235	\$ 3,610
Net Earnings (Loss)				
Canada	\$ (188)	\$ (513)	\$ (581)	\$ (1,141)
United States	320	25	332	375
	\$ 132	\$ (488)	\$ (249)	\$ (766)
Additions to Property, Plant & Equipment				
Canada	\$ 1,157	\$ 1,167	\$ 2,671	\$ 2,568
United States	596	2,155	1,561	2,620
	\$ 1,753	\$ 3,322	\$ 4,232	\$ 5,188
Identifiable Assets, Net				
Canada	\$ 48,223	\$ 46,664	\$ 48,223	\$ 46,664
United States	12,891	13,839	12,891	13,839
	\$ 61,114	\$ 60,503	\$ 61,114	\$ 60,503

12. Comparative Figures

Certain of the comparative figures for the three and six months ended June 30, 2008, have been reclassified to conform with the financial statement presentation adopted.



CORPORATE INFORMATION

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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

Legal Counsel

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Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta
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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

Subsidiaries

Diaz Resources, Inc.
Orbit Oil & Gas Inc.

Auditors

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Stock Exchange Listing

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