





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 and oil 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)	Nine Months Ended September 30	
	2008	2007
Financial		
Total revenue	\$ 11,710	\$ 9,112
Cash flow from operations	6,591	4,225
per share, diluted	0.10	0.07
Loss for the period	(526)	(1,437)
per share, diluted	(0.01)	(0.02)
Capital additions	5,737	8,198
Dispositions	19	582
Net current debt	7,891	8,335
Convertible debentures*	6,027	5,770
Total assets	62,927	59,850
Total shares outstanding at period end	67,192	63,927
Operations		
Production		
Gas (MMcfd)	4.5	4.8
Oil (Bopd)	143	96
BOEd (6 Mcf = 1 Bbl)	890	894
Product Prices		
Gas (\$/Mcf)	\$8.57	\$7.16
Oil (\$/Bbl)	\$93.39	\$65.81

* 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 nine month period ended September 30, 2008.



Message to Shareholders

Diaz's third quarter 2008 revenue and cashflow results were improved over the prior year's quarter resulting from strong commodity prices during the quarter and an increase in natural gas production.

In Canada, Diaz drilled a horizontal oil well at Lloydminster which came on production on October 22, 2008, and is estimated to be producing 70 Bopd with a 50% water cut. Diaz has a 50% working interest in 640 acres, which based on geology and 3D seismic has the potential to support the drilling of multiple horizontal wells which could increase Diaz's Canadian production and reserve base. The offset section has 23 horizontal wells that produced 1,021 Bopd during June 2008 and had cumulative production of 533 Mstb.

Diaz is an early entrant into the Eagleford shale play located in Texas. Over the last three months, the Company has acquired approximately 5,400 gross acres (2,125 net acres) in the play. Diaz's acreage is on trend with a large development program operated by Apache Corporation.

During the third quarter Diaz participated in completing the Ruebush #1 Well, in Lavaca County, Texas, which has cumulatively produced 690 MMcf (net 9.6 MMcf) of gas with a current flowrate of 1.0 MMcfd. A second well on this field, the Ruebush #2 well, was spudded during the third quarter and reached a total depth of 16,652 feet in October. The primary target zone was not economic and the well has been plugged back to 12,300 feet to allow for completion of two prospective Wilcox gas zones scheduled for the fourth quarter.

Financial

Revenue for the three month period ended September 30, 2008, totalled \$4.0 million compared with \$2.9 million in Q3 2007. For the nine month period, revenue totalled \$11.7 million compared with \$9.1 million for the prior year period. Cash flow from operations increased to \$2.2 million for the quarter, or \$0.03 per share compared with \$1.1 million or \$0.02 per share for Q3 2007. For the nine month period, cash flow totalled \$6.6 million or \$0.10 per share compared with \$4.2 million or \$0.07 per share for the prior year period. Diaz reported a loss for the three month period of \$277,000 or nil per share versus a loss of \$671,000 or \$(0.01) per share in Q3 2007. For the nine month period, Diaz had a loss of \$526,000 or \$(0.01) per share versus a loss of \$1.4 million or \$(0.02) per share in the prior year.

Capital expenditures for the third quarter and the nine month period of 2008 totalled \$1.5 million and \$5.7 million respectively compared with \$3.0 million and \$8.2 million for Q3 2007 and the first nine months of 2007. Capital expenditures for the nine month period ended September 30, 2008, were financed from cash flow.

Diaz completed the third quarter with net current debt of \$7.9 million versus \$8.5 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 third quarter increased to 4.7 MMcfd from 4.1 MMcfd in Q3 2007. Oil production for the quarter averaged 122 Bopd compared with 121 Bopd for Q3 2007. Overall, production for the quarter was 899 BOEd compared with 810 BOEd for Q3 2007. For the nine month period ended September 30, 2008, production averaged 890 BOEd compared with 894 BOEd in the prior year.

Business Outlook

By the end of the third quarter, Canadian natural gas prices had decreased to approximately \$6.00 per Mcf. This drop resulted from increasing gas inventories in the U.S. and the impact of the world financial crisis and economic downturn. It is expected that natural gas prices will stay in the \$6.00 to \$7.00 per Mcf range until the winter heating season.

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

D.K. Clark, Chief Operating Officer

R.W. Lamond, Chairman

November 6, 2008



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

November 6, 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 nine months ended September 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 84% of its production for the nine month period ended September 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		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Gas - Canada				
Retlaw	833	660	886	697
Enchant	428	639	475	666
Big Bend	305	-	239	-
Leahurst	500	-	205	-
Therien	171	217	171	221
Carmangay	146	217	143	208
Jaslan	164	234	142	376
Other	941	568	692	588
Gas - Canada (Mcf)	3,488	2,535	2,953	2,756
Oil & Liquids - Canada				
Parkman	(9)	20	28	20
Hays	58	12	24	9
Lloydminster	7	-	15	-
Carmangay	12	-	15	-
Red Earth	7	8	6	8
Harmattan	4	21	5	21
Other	32	51	38	29
Oil & Liquids - Canada (Bopd)	111	112	131	87
BOEd - Canada (6 Mcf = 1 Bbl)	692	535	623	546
Gas - U.S.				
Provident City	310	769	540	851
Black Owl	298	-	348	-
Hound Dog	173	587	325	768
Allen Ranch	128	195	135	372
Other	265	42	182	44
Gas - U.S. (Mcf)	1,174	1,593	1,530	2,035
Oil & Liquids - U.S.				
Black Owl	7	-	6	-
Provident City	4	8	5	8
Other	-	1	1	1
Oil & Liquids - U.S. (Bopd)	11	9	12	9
BOEd - U.S. (6 Mcf = 1 Bbl)	207	275	267	348
Gas - Company (Mcf)	4,662	4,128	4,483	4,791
Oil and Liquids - Company (Bopd)	122	121	143	96
BOEd - Company	899	810	890	894

The Company's overall production for the nine months ended September 30, 2008, decreased 0.4% to 890 BOEd compared with the prior year nine month period average of 894 BOEd; however, current quarter production increased by 11% to average 899 BOEd compared with the Q3 2007 average rate of 810 BOEd.



United States Exploration

Oil Shale Play - Texas

Over the last three months, the Company has acquired approximately 5,400 gross acres (2,125 net acres) in the Eagleford Shale play, located in Texas.

Diaz's acreage is on trend with a large development program, operated by Apache Corporation. Apache's investor presentation, released on October 23, 2008, which can be found on Apache's web site, confirmed that it has an ongoing program to evaluate the play and had drilled and completed four horizontal oil wells to date, with initial production rates of 170 to 345 bopd.

Diaz's acreage has numerous existing wellbores which Diaz believes can be re-entered, drilled horizontally and stage fractured within the Eagleford Shale. The use of existing wellbores will significantly reduce the capital expenditures required for Diaz's development program.

Diaz is continuing to acquire additional acreage in the area and a development plan is being prepared; however, because the costs associated with drilling these wells is significant the Company plans to farmout part of its working interest in the play.

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. The well is currently producing 1.0 MMcfd and has cumulatively produced 690 MMcf of gas.

Diaz has a 1.4 % working interest before payout and 10.0 % working interest after payout, in the Ruebush #1 well. It is estimated that payout will be reached during the fourth quarter of 2008.

Ruebush #2 Well, Lavaca County Texas – BPO WI 1.4 %: APO WI 10 %

In August 2008, the Ruebush #2 well began drilling and reached a total depth of 16,562 feet in late October. The lower Wilcox zones were deemed nonproductive and the well was plugged back to 12,300 feet. Plans are underway to complete two prospective Wilcox gas zones in the fourth quarter.

N.W. Speaks Robertson #1 Well, Lavaca County, Texas – Working Interest 21.6 %

The N.W. Speaks Robertson #1 well was fracture stimulated and brought on stream in early May at a rate of 2.45 MMcfd. At the end of June production tubing was run and the well brought back on production in early July 2008. The well is currently producing at 440 Mcfd.

The Company has identified two more development locations which could be drilled on this structure.

Canadian Exploration and Development

During the third quarter of 2008, Diaz participated in drilling a horizontal oil well at Lloydminster and the recompletion of a significant gas well.

Lloydminster, Alberta – Working Interest 50%

At Lloydminster, Diaz drilled a horizontal oil well which came on stream October 22, 2008, and is estimated to be producing 70 Bopd with a 50% water cut.

Diaz has a 50% working interest in 640 acres which based on geology and 3D seismic could have the potential to support the drilling of multiple horizontal wells which could increase Diaz's Canadian production and reserve base. The offset section has 23 horizontal wells that produced 1,021 Bopd during June 2008 and had cumulative production of 533 Mstb. Development plans for the area are being reviewed.



Carstairs, Alberta – Working Interest 20%

The Carstairs 102/6-34-30-2 W5 well was recompleted in the Viking formation. The well came on stream in July 2008 and is currently producing 1.4 MMcfd.

Winter 2007 Natural Gas Discoveries

During the third quarter Diaz continued to benefit from the two 2007 gas discoveries, Big Bend and Leahurst, which came on stream during the first half of 2008. During the third quarter Diaz was successful in acquiring additional lands in these two areas which are being evaluated for further development.

Operating Results

Product Prices	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Canada				
Gas (\$/Mcf)	\$ 7.70	\$ 6.96	\$ 8.11	\$ 7.11
Oil & Liquids (\$/Bbl)	\$ 105.54	\$ 75.10	\$ 91.43	\$ 65.38
\$/BOE	\$ 55.61	\$ 48.78	\$ 57.59	\$ 46.25
U.S.				
Gas (\$/Mcf)	\$ 10.23	\$ 6.15	\$ 9.45	\$ 7.23
Oil & Liquids (\$/Bbl)	\$ 135.49	\$ 78.71	\$ 113.83	\$ 69.90
\$/BOE	\$ 65.32	\$ 38.19	\$ 59.38	\$ 44.09
\$/BOE - Company	\$ 57.84	\$ 45.19	\$ 58.13	\$ 45.41

For the nine months ended September 30, 2008, Canadian gas prices averaged \$8.11 per Mcf or 14% higher than in the same period last year while in the United States average gas prices of \$9.45 per Mcf were 31% higher than in the prior year nine month period. For the quarter, Canadian and U.S. gas prices averaged \$7.70 per Mcf and \$10.23 per Mcf respectively considerably higher than Q3 2007 gas prices of \$6.96 per Mcf and \$6.15 per Mcf respectively.

In Canada, natural gas revenue for Q3 2008 includes a cost of fixed priced sales contracts of \$55,000 which decreases the average realized price by \$0.17 per Mcf compared with a benefit of \$229,000 or \$0.98 per Mcf in Q3 2007. For the nine month period, costs of the sales contract totalled \$217,000 or \$0.06 per Mcf versus a benefit of \$697,000 in the prior year or \$0.33 per Mcf. Without the fixed price natural gas sales contracts in place Diaz would have realized a price of \$8.17 per Mcf for the nine month period versus a price of \$6.78 per Mcf in the prior year period – a price 21% higher.

For the nine months ended September 30, 2008, oil prices in Canada averaged \$91.43 per barrel, an increase of 40% over the same period last year, while oil prices in the U.S. increased 63% to \$113.83 per barrel compared with \$69.90 per barrel for the same period in 2007.

Overall, the Company's average price per BOE for Q3 2008 was \$57.84, 28% higher than in Q3 2007. For the nine month period the Company's average price per BOE was \$58.13, 28% higher than in the prior year period.



Revenue from Oil and Gas Production (\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Canada				
Natural gas	\$ 2,470	\$ 1,607	\$ 6,561	\$ 5,343
Oil and natural gas liquids	1,065	769	3,263	1,551
Total - Canada	3,535	2,376	9,824	6,894
U.S.				
Natural gas	1,105	891	3,960	4,016
Oil and natural gas liquids	137	62	390	177
Total - U.S.	1,242	953	4,350	4,193
Total Production Revenue - Company	\$ 4,777	\$ 3,329	\$ 14,174	\$ 11,087

Average BOE prices realized in the third quarter of 2008 increased approximately 28% over Q3 2007 and combined with an 11% increase in production resulted in a 44% increase in total production revenue for the quarter compared with Q3 2007. For the nine month period, average BOE prices were also 28% higher than the prior year period but were offset by a production decrease of 0.4% resulting in a net 28% increase in production revenues to \$14.1 million from \$11.1 million in the prior year period.

Royalties (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Canada				
Crown	\$ 357	\$ 137	\$ 1,023	\$ 536
Freehold	250	75	505	245
Royalties	\$ 607	\$ 212	\$ 1,528	\$ 781
per BOE	\$ 9.56	\$ 4.35	\$ 8.96	\$ 5.24
Royalties as a percentage of revenue	16.8%	8.9%	15.1%	11.2%
U.S.				
Royalties	\$ 295	\$ 288	\$ 1,222	\$ 1,252
per BOE	\$ 15.46	\$ 11.55	\$ 16.67	\$ 13.16
Royalties as a percentage of revenue	23.7%	30.0%	28.1%	29.9%
Total Royalties - Company	\$ 902	\$ 500	\$ 2,750	\$ 2,033
per BOE	\$ 10.92	\$ 6.79	\$ 11.28	\$ 8.33

In Canada, royalty rates increased 89% during the third quarter of 2008 to 16.8% of revenue compared with an average of 8.9% in Q3 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 \$55,000 (Q3 2007 – benefit \$217,000) lowering revenues without an offsetting reduction of the royalty charge. For the nine month period, Canadian royalties increased to 15.1% of revenue compared with 11.2% of revenues primarily due to the additional cost of fixed price contracts during the period of \$217,000 versus a benefit of \$697,000 in the prior year period. Also, new wells at Carstairs and Leahurst as well as prior period royalty corrections helped boost the overall rate. Diaz anticipates royalty rates before the effect of natural gas fixed price contracts should average approximately 14% to 16% of Canadian revenue during 2008.

In the United States, royalties decreased to 23.9% of revenue for the third quarter of 2008 compared with 30.0% for Q3 2007. The rate drop in the quarter resulted from the receipt of a refund from the Railroad Commission for royalty paid on a deep gas well that qualified for a temporary exemption. For the nine month period, United States royalties of 28.1% of revenue for the current year was down slightly from



royalties of 29.9% of revenue in the prior year. Diaz expects royalty rates to average 28% to 31% of U.S. revenue during 2008.

Operating and Transportation Expense (\$ Thousands, except per BOE amount)	Three Months Ended September 30		Six Months Ended June 30	
	2008	2007	2008	2007
	Canada	\$ 902	\$ 725	\$ 2,652
per BOE	14.19	14.86	15.56	14.30
U.S.	136	177	319	538
per BOE	7.16	7.11	4.35	5.66
Total Expense - Company	1,038	902	2,971	2,671
per BOE	\$ 12.57	\$ 12.24	\$ 12.19	\$ 10.93

In Canada, Q3 2008 operating costs decreased to \$14.19 per BOE compared with \$14.86 per BOE in Q3 2007. For the nine month period, operating costs increased to \$15.56 per BOE compared with \$14.30 per BOE in the prior year period primarily due to prior period adjustments.

In the U.S., operating costs per BOE increased to \$7.16 per BOE for the third quarter of 2008 compared with \$7.11 per BOE in Q3 2007. For the nine month period, U.S. operating costs decreased to \$4.35 per BOE compared with \$5.66 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) and in Q3 2008 from the Ruebush #1 well (Neighbourhood field) have relatively lower operating costs.

In total, operating costs for Q3 2008 increased by 15% to \$1.0 million compared with \$902,000 in Q3 2007. For the nine month period, operating costs increased 11% to \$3.0 million compared with \$2.7 million for the prior year period.

Overhead & Stock Based Compensation (\$ Thousands, except per BOE amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	Cash compensation costs	\$ 321	\$ 329	\$ 996
Cash compensation recovered	(49)	(46)	(162)	(148)
Net cash compensation	272	283	834	856
Other overhead costs	376	454	1,011	1,224
Other overhead recovered	(60)	(64)	(166)	(181)
Net other overhead	316	390	845	1,043
Total cash overhead	588	673	1,679	1,899
Stock based compensation costs	171	27	195	162
Recovered from third parties	(103)	(119)	(304)	(334)
Capitalized	(43)	(66)	(148)	(181)
Net overhead	613	515	1,422	1,546
per BOE	\$ 5.36	\$ 6.99	\$ 6.50	\$ 6.33

Cash compensation and other overhead costs totalled \$588,000 for Q3 2008, a 13% decrease compared with Q3 2007. For the ninth month period, cash compensation and other overhead costs decreased 12% to \$1.7 million from \$1.9 million in the prior year period.

Net overhead costs for the ninth month period decreased 8% to \$1.4 million compared with \$1.5 million for the prior year period. Most of this decrease resulted from the reduction in other overhead costs.



Interest Expense (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest expense	\$ 271	\$ 355	\$ 877	\$ 821
Debenture accretion and issue costs	66	62	194	121
Interest expense	337	417	1,071	942
per BOE	4.08	5.67	4.39	3.86
Average interest rate on bank debt	5.5%	6.8%	5.8%	6.8%
Average bank debt	8,458	6,473	8,965	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 decreased to \$337,000 for Q3 2008 compared with \$417,000 in Q3 2007. The decrease resulted from a lower average interest rate relating to the bank debt offset by higher average bank debt for the period. For the nine 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Canada				
Current tax expense	\$ (3)	\$ -	\$ 6	\$ 24
Future tax expense (recovery)	(82)	(226)	(93)	(683)
Total - Canada	(85)	(226)	(87)	(659)
U.S.				
Current tax expense	7	(24)	37	(13)
Future tax expense (recovery)	30	74	235	392
Total - U.S.	37	50	272	379
Total - Company	\$ (48)	\$ (176)	\$ 185	\$ (280)

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 at the end of Q3 2008 has satisfied the associated spending requirement. 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Canada				
Depletion and depreciation	\$ 1,682	\$ 1,330	\$ 4,523	\$ 3,970
ARO accretion	66	58	195	171
Total - Canada	1,748	1,388	4,718	4,141
per BOE	27.50	28.51	27.66	27.79
U.S.				
Depletion and depreciation	474	430	1,736	1,285
ARO accretion	1	-	4	2
Total - U.S.	475	430	1,740	1,287
per BOE	24.96	17.25	23.75	13.52
Total - Company	2,223	1,818	6,458	5,428
per BOE	\$ 26.91	\$ 24.70	\$ 26.48	\$ 22.23

For the nine month period, the Company's depletion, depreciation and accretion costs have increased to \$26.48 per BOE compared with \$22.23 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							
	Sep 30	2008			2007			2006
		Jun 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
Production (BOEd)	899	955	816	773	809	868	1,017	1,074
Price (\$/BOE)	\$ 57.84	\$ 63.99	\$ 51.59	\$ 46.82	\$ 45.19	\$ 46.44	\$ 44.70	\$ 41.86
Total revenue	3,964	4,576	3,170	2,970	2,850	3,013	3,249	3,250
Cash flow from operations per share	2,209 0.03	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
Earnings (loss) per share (diluted)	(277) 0.00	132 0.00	(381) (0.01)	(168) 0.00	(671) (0.01)	(488) (0.01)	(278) 0.00	(314) 0.00
Fixed asset additions (net)	1,504	1,735	2,479	2,384	2,890	3,319	1,407	3,914
Total assets	62,927	61,114	61,221	60,794	59,850	60,503	59,480	59,745
Convertible debenture*	6,027	5,961	5,896	5,832	5,770	5,708	5,694	-
Net current debt	7,891	8,481	9,404	8,542	8,335	6,534	4,563	11,235

* 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 nine months ended September 30, 2008.

Diaz's production rates steadily declined during the 2007 year; however, during the last three quarters the production rates have been higher than the 2007 exit rate. Average oil and natural gas prices have been increasing during the last two years and have been very strong during the last three quarters. The Company's revenues in the current quarter benefit from the production trend combined with record oil and natural gas prices. This marks three straight quarters of increasing revenues and cashflow.



Liquidity and Capital Resources

Diaz completed Q3 2008 with a net current debt of \$7.9 million compared with \$8.3 million at the end of Q3 2007. The Company has a credit facility of \$9.0 million, of which \$8.3 million was drawn at September 30, 2008.

In addition, at September 30, 2008, the Company had convertible debentures of \$7.1 million that mature on March 26, 2012.

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 670,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid ("NCIB"), which expires on September 30, 2009. Shares repurchased pursuant to the bid are cancelled.

Diaz repurchased 46,900 shares during the first nine months of 2008 at an average cost of \$0.22 per share.

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 fixed price sales contracts in relation to gas prices in Canada.

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 nine month period ended September 30, 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",
- 3) Handbook Section 3863, "Financial Instruments – presentation", and
- 4) 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 nine months ended September 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

By the end of the third quarter, Canadian natural gas prices had decreased to approximately \$6.00 per Mcf. This drop resulted from increasing gas inventories in the U.S. and the impact of the world financial crisis and economic downturn. It is expected that natural gas prices will stay in the \$6.00 to \$7.00 per Mcf range until the winter heating season.

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	September 30 2008	December 31 2007
ASSETS		
Current Assets		
Cash	\$ 1,076	\$ 558
Accounts receivable	4,810	2,988
Income tax receivable	314	292
Prepaid expense	370	289
	6,570	4,127
Property, plant and equipment (Note 4)	104,494	98,541
Accumulated depletion and depreciation	(48,137)	(41,874)
	56,357	56,667
Total Assets	\$ 62,927	\$ 60,794
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 6,161	\$ 4,589
Income tax payable	-	28
Bank debt (Note 3)	8,300	8,052
	14,461	12,669
Other Liabilities		
Convertible debentures (Note 7)	6,027	5,832
Future income tax liability	6,083	5,498
Asset retirement obligation (Note 8)	3,243	3,069
Total Other Liabilities	15,353	14,399
	29,814	27,068
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	19,704	19,986
Other equity (Note 7)	847	847
Contributed surplus	1,508	1,313
Retained earnings	11,054	11,580
	33,113	33,726
Total Liabilities and Shareholders' Equity	\$ 62,927	\$ 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenue				
Production	\$ 4,777	\$ 3,329	\$ 14,174	\$ 11,087
Royalties	(902)	(500)	(2,750)	(2,033)
Interest and other income	89	21	286	58
	3,964	2,850	11,710	9,112
Expenses				
Operating and transportation	1,038	902	2,971	2,671
Overhead	442	488	1,227	1,384
Stock based compensation	171	27	195	162
Interest expense	337	417	1,071	942
Foreign exchange loss	78	45	129	242
Depletion, depreciation and accretion	2,223	1,818	6,458	5,428
	4,289	3,697	12,051	10,829
Earnings (loss) before income tax	(325)	(847)	(341)	(1,717)
Income tax				
Current expense (recovery)	4	(24)	44	11
Future tax expense (recovery)	(52)	(152)	141	(291)
Total income tax	(48)	(176)	185	(280)
Net loss and comprehensive loss for the period	(277)	(671)	(526)	(1,437)
Excess of cost over paid up capital on share repurchases	-	(4)	-	(4)
Retained earnings, beginning of period	11,331	12,419	11,580	13,185
Retained earnings, end of period	\$ 11,054	\$ 11,744	\$ 11,054	\$ 11,744
Loss per share, basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)



Consolidated Statement of Cash Flows

(\$ Thousands, unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Cash provided by (used for):				
Operating Activities				
Loss for the period	\$ (277)	\$ (671)	\$ (526)	\$ (1,437)
Non-cash items:				
Interest expense	66	61	194	121
Depreciation, depletion and accretion	2,223	1,818	6,458	5,428
Stock based compensation	171	27	195	162
Future tax expense (recovery)	(52)	(152)	141	(291)
Foreign exchange loss	78	45	129	242
Cash flow from operations	2,209	1,128	6,591	4,225
Abandonments	(126)	-	(243)	-
Change in non-cash working capital	1,325	(60)	928	(963)
	3,408	1,068	7,276	3,262
Investing Activities				
Property, plant & equipment - additions	(1,505)	(3,010)	(5,737)	(8,198)
Property, plant & equipment - dispositions	1	120	19	582
Change in non-cash working capital	(453)	2,268	(1,272)	(145)
	(1,957)	(622)	(6,990)	(7,761)
Financing Activities				
Convertible debenture (net of expenses)	-	-	-	6,496
Increase (decrease) in bank debt	(822)	(50)	248	(3,240)
Common Shares				
Issued for cash on exercise of options	-	1	-	34
Share issue costs	-	-	(5)	-
Repurchased for cancellation	(6)	(1)	(11)	(6)
	(828)	(50)	232	3,284
Increase (decrease) in cash	623	396	518	(1,215)
Cash, beginning of period	453	471	558	2,082
Cash, end of period	\$ 1,076	\$ 867	\$ 1,076	\$ 867
Supplementary information regarding cash payments:				
Interest paid during the period	\$ 117	\$ 356	\$ 412	\$ 821
Taxes paid during the period	\$ -	\$ 80	\$ 80	\$ 104



Notes to the Consolidated Financial Statements (Unaudited)

For the nine month period ended September 30, 2008

The interim financial statements for the three and nine months ended September 30, 2008, have not been reviewed by the Company's external auditors.

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",
- 3) Handbook Section 3863, "Financial Instruments – presentation", were created to expand upon and replace Handbook Section 3861, "Financial Instrument Disclosures and Presentation"; and
- 4) 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 \$9.0 million 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 5.50% at September 30, 2008. The loan is payable on demand and is subject to an annual review by September 2009. 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 September 30, 2008, \$8,300,000 of the loan was outstanding (December 31, 2007 - \$8,052,000).



4. *Property, Plant and Equipment*

At September 30, 2008, unproven property costs of \$924,000 were excluded from the depletable cost base (September 30, 2007 - \$5,599,000). For the nine month period ended September 30, 2008, administrative expenses of \$698,000 related to exploration and development activities were capitalized as part of property, plant and equipment (year to date 2007 - \$763,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At September 30, 2008, future costs were \$4,057,000 (September 30, 2007 - \$5,162,000).

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	(46,900)	(11)
Total Shares Outstanding, September 30, 2008	67,191,652	\$ 19,704
Contributed Surplus		
Balance, December 31, 2007		\$ 1,313
Option compensation for the period		195
Balance, September 30, 2008		\$ 1,508

Normal Course Issuer Bid

During the nine months ended September 30, 2008, Diaz repurchased 46,900 of its Common Shares at an average price of \$0.22 per share.

Effective October 1, 2008 Diaz has been authorized to repurchase up to 670,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid, which will expire September 30, 2009.

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 September 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Weighted average shares outstanding	67,255,094	63,927,306	67,222,960	63,894,861
Dilutive effect of stock options	-	464,259	-	586,291
Diluted weighted average shares outstanding	67,255,094	64,391,565	67,222,960	64,481,152

Stock Option Plan

As at September 30, 2008, there are a total of 4,857,500 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.415 per share. A total of 3,167,484 options with a weighted average exercise price of \$0.502 are exercisable at September 30, 2008.

Fixed Options	Nine Months Ended September 30, 2008		Year Ended 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	2,497,500	0.250	100,000	0.463
Exercised	-	-	(93,300)	(0.367)
Expired / cancelled	(1,215,000)	0.356	(493,400)	(0.956)
Outstanding, end of period	4,857,500	\$ 0.415	3,575,000	\$ 0.645
Options exercisable, end of period	3,167,484	\$ 0.502	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 nine month period ended September 30, 2008, by \$171,000 and \$195,000 respectively (Q3 2007 - \$27,000 / YTD 2007 - \$162,000).

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
2008	3.40	4.5	0.53	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)	Nine Months Ended September 30	
	2008	2007
Current liabilities	\$ 14,461	\$ 12,407
Less Current assets	6,570	4,072
Net current debt	7,891	8,335
Convertible Debentures	6,027	8,335
Net debt	13,918	16,670
Annualized Cashflow from Operations	8,788	5,633
Months estimated to repay net current debt	10.78	17.76
Months estimated to repay net debt	19.01	35.51

The decrease in net current debt repayability for the nine month period ended September 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 \$9.0 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 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 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	108,000	93,000
Issue costs	87,000	91,000
Liability component of debenture	\$ 6,027,000	\$ 5,832,000

As of September 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.

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 Corporation may, at its option, elect to satisfy its obligation to pay all or any portion of the principal amount by issuing and delivering to holders on the maturity date that number of Common Shares obtained by dividing the \$0.90 per share redemption price by 95% of the current market price of the Common Shares.

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)	Nine Months Ended September 30 2008	Year Ended December 31 2007
Asset Retirement Obligation, beginning of period	\$ 3,069	\$ 2,596
Liabilities incurred	21	79
Liabilities settled	(51)	-
Accretion expense	199	244
Foreign exchange difference	5	150
Asset Retirement Obligation, end of period	\$ 3,243	\$ 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 2009 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	Oct 1, 2008 - Oct 31, 2008
474 Mcfd	8.20	Oct 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 as of September 30, 2008, had satisfied the required exploration spending commitment.

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		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
Revenue (net)				
Canada	\$ 3,015	\$ 2,178	\$ 8,581	\$ 6,164
United States	949	672	3,129	2,948
	\$ 3,964	\$ 2,850	\$ 11,710	\$ 9,112
Interest Expense				
Canada	\$ 337	\$ 417	\$ 1,071	\$ 942
United States	-	-	-	-
	\$ 337	\$ 417	\$ 1,071	\$ 942
Current Taxes				
Canada	\$ (3)	\$ -	\$ 6	\$ 24
United States	7	(24)	38	(13)
	\$ 4	\$ (24)	\$ 44	\$ 11
Cash Flow from Operations				
Canada	\$ 1,460	\$ 719	\$ 3,989	\$ 2,069
United States	749	409	2,602	2,156
	\$ 2,209	\$ 1,128	\$ 6,591	\$ 4,225
Depletion, Depreciation & Accretion				
Canada	\$ 1,748	\$ 1,388	\$ 4,718	\$ 4,142
United States	475	430	1,740	1,286
	\$ 2,223	\$ 1,818	\$ 6,458	\$ 5,428
Net Earnings (Loss)				
Canada	\$ (444)	\$ (532)	\$ (1,025)	\$ (1,673)
United States	167	(139)	499	236
	\$ (277)	\$ (671)	\$ (526)	\$ (1,437)
Additions to Property, Plant & Equipment				
Canada	\$ 798	\$ 1,726	\$ 3,469	\$ 4,294
United States	707	1,284	2,268	3,904
	\$ 1,505	\$ 3,010	\$ 5,737	\$ 8,198
Identifiable Assets, Net				
Canada	\$ 50,036	\$ 46,011	\$ 50,036	\$ 46,011
United States	12,891	13,839	12,891	13,839
	\$ 62,927	\$ 59,850	\$ 62,927	\$ 59,850

12. Comparative Figures

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



CORPORATE INFORMATION

Directors

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 Calgary, Alberta

Donald K. Clark
 Calgary, Alberta

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John G.F. McLeod ⁽¹⁾⁽²⁾
 Okotoks, Alberta

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

Burnet, Duckworth & Palmer LLP
 Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
 Calgary, Alberta
 Toronto, Ontario

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

PricewaterhouseCoopers LLP
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Stock Exchange Listing

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