

DIAZ RESOURCES LTD.



Q1

Interim Report
For the Three Month Period
Ended March 31, 2009



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 development of oil prospects in Saskatchewan and Alberta, and the exploitation of its other oil and gas assets in Alberta.

Corporate Summary

<i>(Thousands, except per share amounts, unaudited)</i>	Three Months Ended	
	2009	2008
Financial		
Revenue	\$ 2,248	\$ 3,170
Cash flow from operations	614	1,643
per share, diluted	0.01	0.02
Loss for the period	(9,754)	(381)
per share, diluted	(0.15)	(0.01)
Capital additions	949	2,479
Dispositions	113	-
Net current debt	8,657	9,404
Convertible debentures*	6,163	5,896
Total assets	43,264	61,221
Total shares outstanding at period end	67,178	67,239
Operations		
Production		
Gas (MMcfd)	4.1	4.0
Oil (Bopd)	111	155
BOEd (6 Mcf = 1 Bbl)	791	816
Product Prices		
Gas (\$/Mcf)	\$6.01	\$7.82
Oil (\$/Bbl)	\$35.13	\$71.43

* Convertible debentures issued in Q1 2007, have a face value of \$7.1 million and mature on March 26, 2012. See Note 8, "Convertible Debentures", in the notes to the financial statements for the three months ended March 31, 2009.



Message to Shareholders

Diaz's revenue and cashflow results for the three months ended March 31, 2009, were lower when compared with Q1 2008, as improved natural gas production results in Canada were offset by a drop in U.S. production and a significant decline in oil and natural gas prices both in the U.S. and in Canada.

During the last quarter of 2008, Diaz drilled and completed a significant oil well at Lloydminster, Alberta, 50% WI. Diaz has been producing this well and closely monitoring its productivity over the past few months, and is pleased with recent improvements in oil production due to optimizing the well's downhole configuration.

Financial

Revenue for the three months ended March 31, 2009, lowered to \$2.2 million compared with \$3.2 million for Q1 2008. Cash flow from operations decreased to \$614,000 or \$0.01 per share compared with \$1.6 million or \$0.02 per share in Q1 2008. Diaz reported a loss for the three month period of \$9.8 million or (\$0.15) per share versus a loss of \$381,000 or (\$0.01) per share in Q1 2008, as it took an impairment write down against its oil and gas assets of \$11.4 million.

Capital expenditures for the first quarter of 2009 totalled \$949,000 compared with \$2.5 million for Q1 2008. Capital expenditures were financed from cash flow from operations and debt. Diaz completed Q1 2009 with net current debt of \$8.7 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

The Company's production for the three month period ended March 31, 2009, decreased 3% to 791 BOEd compared with the Q1 2008 average of 816 BOEd. In Canada, natural gas production rates in the quarter were 31% higher than in the prior year, averaging 3.0 MMcfd compared with 2.3 MMcfd. The increase in Canadian gas production was offset by a reduction during the quarter of Canadian oil production by 28% and U.S. production by 37%.

Land Acquisition and Property Sale

During 2009, Diaz has acquired 9,611 acres (6,795 net acres) in Alberta and Saskatchewan. The Alberta lands were acquired to expand existing holdings at Big Bend. Diaz's primary exploration focus is in Saskatchewan where the Company now has acreage on prospective Viking, Shaunavon and Bird Bear oil plays.

In May 2009, Diaz completed the sale of its interest in a non-operated oil property in the Carmangay, Alberta area for \$1.0 million. Diaz's net production from the area was 16 Bopd and the sale equated to \$62,500 per flowing barrel. The proceeds from the sale were used to reduce Diaz's bank debt.

Business Outlook

A weak natural gas pricing environment has led to a sharp reduction in the number of rigs drilling for natural gas over the last six months. The drop of rig activity in Canada and the U.S. should decrease domestic supply as rates from producing wells decline without new well production replacing the declines. However, even though natural gas prices have shown signs of strengthening recently, there is still considerable uncertainty as to when prices will again rise to above \$7.00 Mcf. Because of the uncertainty in the gas market and the underlying economy Diaz expects that natural gas prices will stay in the range of \$4.00 to \$6.00 per Mcf for the remainder of 2009.



Diaz plans to match capital spending to operating cashflows and has halted new projects until gas prices improve over current levels. Diaz's future exploration program will focus on developing its Canadian properties which can be managed within the Company's capital budget. However, Diaz is also considering various alternatives to its normal operations such as the selling of assets, a reduction of overhead costs, and other Corporation transactions to optimize shareholder value.

On behalf of the Board,

D.K. Clark, Chief Operating Officer
May 14, 2009

R.W. Lamond, Chairman

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

May 14, 2009

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 three months ended March 31, 2009, and the audited financial statements at December 31, 2008. The reader should be aware that historical results are not necessarily indicative of future performance.

The interim report for the three months ended March 31, 2009, has not been reviewed or audited by the Company's auditor.

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 86% of its production for the period ended March 31, 2009, 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	
	2009	March 31 2008
Gas - Canada		
Retlaw	908	872
Enchant	387	471
Leahurst	374	-
Big Bend	406	-
Therien	122	164
Jaslan	108	103
Carmangay	95	117
Other	633	584
Gas - Canada (Mcf)	3,033	2,311
Oil & Liquids - Canada		
Parkman	25	29
Lloydminster	20	-
Carmangay	6	-
Red Earth	9	7
Hays	1	7
Harmattan	8	6
Other	33	94
Oil & Liquids - Canada (Bopd)	102	143
BOEd - Canada (6 Mcf = 1 Bbl)	608	528
Gas - U.S.		
Provident City	368	687
Black Owl	283	328
Hound Dog	173	438
Allen Ranch	81	145
Other	137	58
Gas - U.S. (Mcf)	1,042	1,656
Oil & Liquids - U.S.		
Black Owl	5	5
Provident City	4	7
Other	-	-
Oil & Liquids - U.S. (Bopd)	9	12
BOEd - U.S. (6 Mcf = 1 Bbl)	183	288
Gas - Company (Mcf)	4,075	3,967
Oil and Liquids - Company (Bopd)	111	155
BOEd - Company	791	816

The Company's production for the three month period ended March 31, 2009, decreased 3% to 791 BOEd compared with the Q1 2008 average of 816 BOEd. In Canada, natural gas production rates in the quarter were 31% higher than in the prior year, averaging 3.0 MMcfd compared with 2.3 MMcfd. The increase in Canadian gas production resulted from production at Leahurst and Big Bend that was not online in the prior year until the second quarter. Canadian oil production decreased by 28% to 102 Bopd from 143 Bopd as production declines from new oil wells in late 2007 and early 2008 were not sufficiently replaced by the addition of production from Lloydminster. In the U.S., production decreased by 37% with



declines in all producing areas. Subsequent to the end of the quarter, the Black Owl #1 well, which is the only well in the Black Owl category above, was shut-in in and is unlikely to be returned to production.

Product Prices	Three Months Ended	
	2009	March 31 2008
Canada		
Gas (\$/Mcf)	\$ 6.30	\$ 8.20
Oil & Liquids (\$/Bbl)	\$ 33.93	\$ 69.90
\$/BOE	\$ 37.18	\$ 54.79
U.S.		
Gas (\$/Mcf)	\$ 5.15	\$ 7.30
Oil & Liquids (\$/Bbl)	\$ 49.27	\$ 89.07
\$/BOE	\$ 31.79	\$ 45.74
\$/BOE - Company	\$ 35.93	\$ 51.59

In Canada, Diaz received an average price of \$6.30 per Mcf in Q1 2009, 23% lower than in Q1 2008. Oil prices averaged \$33.93 per barrel in Q1 2009 and were 52% lower than in the prior year period.

In the U.S., the average natural gas price of \$5.15 per Mcf in Q1 2009 was 30% lower than in Q1 2008. Oil prices of \$49.27 for Q1 2009 were 45% lower than prices in the prior year period.

Overall, the Company's average price per BOE for the period ended March 31, 2009, was \$35.93, 30% lower than in the prior period.

Canada Natural Gas Prices Adjusted For Fixed Gas Contracts	Three Months Ended	
	2009	March 31 2008
Canada		
Gas (\$/Mcf)	\$ 6.30	\$ 8.20
Fixed gas contract cost (benefit) / Mcf	\$ (1.74)	\$ (1.40)
Gas price without contracts \$/Mcf	\$ 4.56	\$ 6.80
Fixed gas contract benefit (cost) \$ '000	\$ 476	\$ 294

Product prices contained in the Product Prices table above include the impact of fixed natural gas pricing contracts. If the effect of the pricing contracts were removed, the reader can determine the "real" market prices received by the Corporation. Diaz would have realized a price of \$4.56 per Mcf for Q1 2008 compared with a price of \$6.80 per Mcf in the prior year period without the contracts in place.

Revenue from Oil and Gas Production (\$ Thousands)	Three Months Ended	
	2009	March 31 2008
Canada		
Natural gas	\$ 1,721	\$ 1,725
Oil and natural gas liquids	311	908
Total - Canada	2,032	2,633
U.S.		
Natural gas	483	1,100
Oil and natural gas liquids	38	100
Total - U.S.	521	1,200
Total Production Revenue - Company	\$ 2,553	\$ 3,833



Average BOE prices realized in the first quarter of 2009 decreased approximately 30% over Q1 2008 and combined with a 3% decrease in production resulted in a 33% decrease in total production revenue for the quarter compared with Q1 2008. With continued low natural gas prices during April and into May 2009 revenue results for the upcoming quarter, Q2 2009, and potentially for the rest of the year may be worse than Q1 2009.

Royalties (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended March 31	
	2009	2008
Canada		
Crown	\$ 106	\$ 293
Freehold	118	88
Royalties	\$ 224	\$ 381
per BOE	\$ 4.10	\$ 7.94
Royalties as a percentage of revenue	10.6%	14.3%
U.S.		
Royalties	\$ 162	\$ 319
per BOE	\$ 9.88	\$ 12.13
Royalties as a percentage of revenue	31.1%	26.5%
Total Royalties - Company	\$ 386	\$ 700
per BOE	\$ 5.40	\$ 9.42

In Canada, royalty rates decreased during the first quarter of 2009 to 10.6% of revenue compared with an average of 14.3% in Q1 2008. The reduced royalty resulted from lower realized commodity prices which in Alberta also attracts a reduced royalty rate. Diaz anticipates royalty rates should average approximately 14% to 16% of Canadian revenue during 2009.

In the United States, royalties increased to 31.1% of revenue for the first quarter of 2009 compared with 26.5% for Q1 2008. The reduced rate in the prior 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. Diaz expects royalty rates to average 28% to 31% of U.S. revenue during 2009.

Operating and Transportation Expense (\$ Thousands, except per BOE amount)	Three Months Ended March 31	
	2009	2008
Canada		
per BOE	\$ 15.70	\$ 15.65
U.S.		
per BOE	\$ 5.08	\$ 3.36
Total Expense - Company	\$ 941	\$ 839
per BOE	\$ 13.25	\$ 11.31

In Canada, Q1 2009 operating costs of \$15.70 per BOE were in line with prior year results. In the U.S., operating costs per BOE increased 51% to \$5.08 per BOE for the first quarter of 2009 compared with \$3.36 per BOE in Q1 2008. The primary reason for the increase was the cost of water disposal at the Black Owl #1 well which has rendered the well uneconomic at current natural gas prices.

In total, operating costs for Q1 2009 increased by 12% to \$941,000 compared with \$839,000 in Q1 2008.



Overhead & Stock Based Compensation (\$ Thousands, except per BOE amounts)	Three Months Ended March 31	
	2009	2008
Cash compensation costs	\$ 368	\$ 339
Cash compensation recovered	\$ (57)	\$ (57)
Net cash compensation	\$ 311	\$ 282
Other overhead costs	313	312
Other overhead recovered	(53)	(53)
Net other overhead	260	259
Total cash overhead	571	541
Stock based compensation costs	21	12
Recovered from third parties	(86)	(99)
Capitalized	(38)	(55)
Net overhead	468	399
per BOE	\$ 6.58	\$ 5.36

Cash compensation and other overhead costs totalled \$571,000 for Q1 2009, a 6% increase compared with Q1 2008. Net overhead costs for the quarter increased to \$468,000 compared with \$399,000 for the prior year period due to increased stock based compensation and salary costs.

Interest Expense (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended March 31	
	2009	2008
Interest expense	\$ 242	\$ 299
Debenture accretion and issue costs	69	64
Interest expense per BOE	311	363
	4.39	4.89
Average interest rate on bank debt	3.8%	6.4%
Average bank debt	8,062	9,055
Interest rate on convertible debentures	8.75%	8.75%
Convertible debentures - face value	\$ 7,085	\$ 7,085

Total interest expense decreased to \$311,000 for Q1 2009 compared with \$363,000 in Q1 2008. The decrease resulted from a lower average interest rate relating to the bank debt combined with a lower average bank debt for the period.

Income Taxes (\$ Thousands)	Three Months Ended March 31	
	2009	2008
Canada		
Current tax expense	\$ 1	\$ -
Future tax expense (recovery)	(3,434)	(124)
Total - Canada	(3,433)	(124)
U.S.		
Current tax expense	3	2
Future tax expense (recovery)	(262)	54
Total - U.S.	(259)	56
Total - Company	\$ (3,692)	\$ (68)



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 2009. Future tax recoveries in Canada result from reduced tax rates anticipated in future years plus the impact of the impairment of assets charged to income in Q1 2009.

In the United States, the Company was cash taxable in 2006 but due to increased capital spending during 2007 and 2008 did not have any current Federal tax. Diaz's plans to incur additional costs to develop several of its properties during 2009 have been deferred, which may result in taxes payable in 2009.

Depletion, Depreciation & Accretion (\$ Thousands, except per BOE Amounts)	Three Months Ended	
	2009	March 31 2008
Canada		
Depletion and depreciation	\$ 1,537	\$ 1,289
ARO accretion	70	65
Total - Canada	1,607	1,354
per BOE	29.41	28.18
U.S.		
Depletion and depreciation	958	600
ARO accretion	1	1
Total - U.S.	959	601
per BOE	58.44	22.92
Total - Company	2,566	1,955
per BOE	\$ 36.11	\$ 26.32

In Q1 2009, the Company's depletion, depreciation and accretion costs have increased to \$36.11 per BOE compared with \$26.32 per BOE for the prior year period. Depletion expense is calculated based on the Company's proved reserves.

In Canada, the Company has taken an impairment write down on its assets of \$11.4 million in Q1 2009 which should result in a reduction of the depletion rate per BOE for Canada for the remainder of 2009 to less than \$20.00 per BOE.

In the U.S., Diaz's substantial probable reserves value (which is used to determine asset impairment) results in a high carrying value of its oil and gas assets when compared with the proved reserves associated with it.



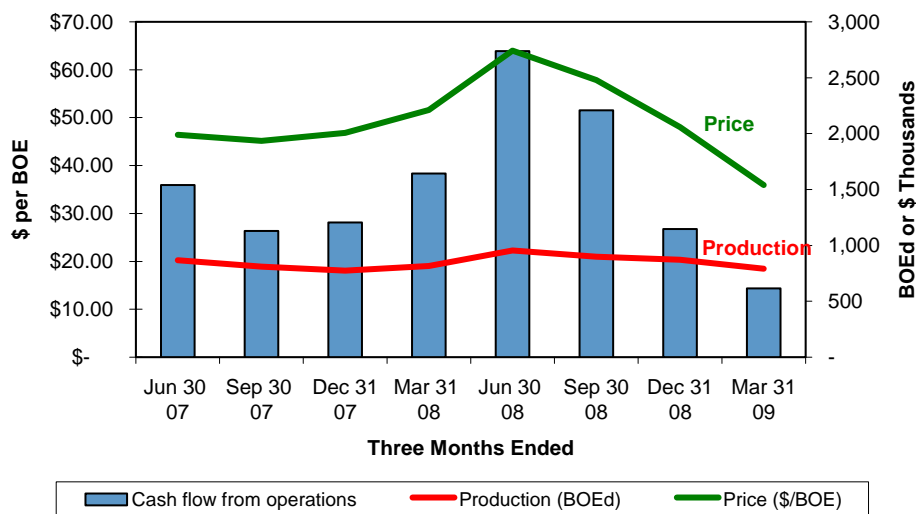
Quarterly Financial Information

(\$ Thousands, except production and per share amounts)	Three Months Ended							
	2009		2008				2007	
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Production (BOEd)	791	871	899	955	816	773	809	868
Price (\$/BOE)	\$ 35.93	\$ 48.06	\$ 57.84	\$ 63.99	\$ 51.59	\$ 46.82	\$ 45.19	\$ 46.44
Total revenue	2,248	3,389	3,964	4,576	3,170	2,970	2,850	3,013
Cash flow from operations per share	614 0.01	1,146 0.02	2,209 0.03	2,739 0.04	1,643 0.02	1,204 0.02	1,128 0.02	1,541 0.02
Earnings (loss) per share (diluted)	(9,754) (0.15)	(3,561) (0.05)	(277) 0.00	132 0.00	(381) (0.01)	(168) 0.00	(671) (0.01)	(488) (0.01)
Overhead	447	567	442	398	387	472	488	422
Fixed asset additions (net)	836	2,074	1,504	1,735	2,479	2,384	2,890	3,319
Total assets	43,264	56,761	62,927	61,114	61,221	60,794	59,850	60,503
Convertible debentures*	6,163	6,094	6,027	5,961	5,896	5,832	5,770	5,708
Net current debt	8,657	8,449	7,891	8,481	9,404	8,542	8,335	6,534

* Convertible debentures issued in Q1 2007, have a face value of \$7.1 million and mature on March 26, 2012. See Note 8, "Convertible Debentures", in the notes to the financial statements for the three months ended March 31, 2009.

Diaz's production rate peaked at 955 BOEd in Q2 2008 and declined during the next three quarters. Q2 2008 also had the highest average price per BOE. Since Q2 2008, prices have dropped by 44% resulting in a significant reduction in cashflow. As demonstrated by the following graph, the relative change in price per BOE has had a greater impact on cashflow than the change in production rates.

Cashflow, Production and Price - Eight Quarters





Liquidity and Capital Resources

Diaz completed Q1 2009 with a net current debt of \$8.7 million compared with \$8.5 million at the end of 2008. On March 31, 2009, the Company has a \$9.0 million secured loan with a Canadian financial institution that is being reviewed. There is no assurance that the loan will be renewed at the current level or that the financial institution will maintain the current interest rate premium. In May 2009, Diaz completed the sale of its interest in a non-operated oil property in the Carmangay, Alberta area for \$1.0 million and reduced its line of credit to \$8.0 million from \$9.0 million.

The Company has drawn \$8.1 million of the facility at March 31, 2009.

In addition, at March 31, 2009, the Company had convertible debentures of \$7.1 million that mature on March 26, 2012.

Current economic conditions are not conducive to raising capital through either an equity or debt financing; therefore, the Company's capital expenditure plans for 2009 are based on estimated cash flow from operations for the year. See Note 1, "Going Concern", in the notes to the financial statements for the three month period ended March 31, 2009.

Normal Course Issuer Bid

During the three months ended March 31, 2009, Diaz did not repurchase any of its Common Shares.

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, which expires on September 25, 2009. Shares repurchased pursuant to the bid are cancelled.

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.

Natural gas and crude oil prices weakened during the first quarter ended March 31, 2009, to close at spot prices of \$3.59 USD/Mcf at Henry Hub and \$49.66 USD per barrel for WTI Cushing. Oil and gas prices at these levels in Canada and in the United States will cause the Company to have poor forward results.

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.



Contractual Obligations and Commitment

In the normal course of business, Diaz is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancelable. Diaz has an obligation with respect to an operating lease covering its office space for a minimum payment of \$162,000 in 2009.

The Company also has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Diaz includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at March 31, 2009, was \$5.0 million (2008 – \$5.1 million).

Off Balance Sheet Arrangements

Diaz does not currently utilize any off balance sheet arrangements with unconsolidated entities to enhance liquidity and capital resource positions or for any other purpose.

Application of Critical Accounting Estimates

Diaz's financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies used by Diaz are disclosed in Note 2 to the audited Consolidated Financial Statements for the year ended December 31, 2008. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Company and the likelihood of materially different results being reported.

Diaz's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Full Cost Accounting for Oil and Gas Activities

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit of production method based on estimated proved oil and gas reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Withheld Costs

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly and any impairment is transferred to the costs being depleted.



Impairment of Long-Lived Assets

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost center is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

Asset Retirement Obligations

The Company is required to provide for future removal and site restoration costs. The Company must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to earnings and the appropriate liability account over the expected service life of the asset.

When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.

Legal, Environmental Remediation and Other Contingent Matters

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings.

The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

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.

International Financial Reporting Standards (IFRS) Conversion

During 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations.

To date, the CFO, the primary sponsor for the project, has prepared a summary level changeover plan for IFRS conversion that has been presented to the Audit Committee of the Board of Directors. Hallmarks of the changeover plan include, initial definition of the tasks required for conversion, a timeline for the completion of the tasks, an estimate of the effort and duration associated with the conversion, prioritization of tasks, and the assignment of key personnel within the organization.

The conversion plan has been divided into three distinct phases and management is currently in phase one as described below.

Phase One:

Identification of a project work plan that outlines potential conversion issues unique to our industry. This phase assigns ownership responsibility for each of those issues, estimates the time, duration and costs



associated with each major deliverable within the plan, and presents an overall project timeline and in-progress reporting from key deliverable owners and assigned employees.

Phase Two:

Identification of the significant accounting policies that relate to each of the major conversion items within the firm. This phase identifies the changes to the accounting policies that will be required with IFRS, and adjusts the plan identified in Phase One accordingly.

Phase Three:

Management of dual reporting under Canadian GAAP and IFRS as required. This phase determines the mapping between the different accounts identified in our chart of accounts and applies this mapping to generate the IFRS reporting. Dual reporting capability will be required as of January 1, 2010, so that the Company can prepare comparative information for IFRS reporting which will begin the first quarter of 2011.

Internal Controls over Financial Reporting (ICFR)

The Chief Executive Officer and Chief Financial Officer of Diaz (the “Certifying Officers”) have designed internal controls over financial reporting or caused 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. The Certifying Officers have assessed the design and effectiveness of the Company’s ICFR at March 31, 2009.

As at March 31, 2009, 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.

The Certifying Officers have evaluated the internal controls over financial reporting and have determined that the ICFR is effective after the above remediation.

Disclosure Controls and Procedures (DC&P)

The Chief Executive Officer and Chief Financial Officer of Diaz (the “Certifying Officers”) have designed disclosure controls and procedures or caused them to be designed under our supervision, to provide reasonable assurance that:

- (i) material information relating to the issuer is made known to the Certifying Officers by others, particularly during the period in which the annual filings are being prepared; and
- (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have evaluated the disclosure controls and procedures and have determined that the DC&P are effective as at March 31, 2009.



Outlook

A weak natural gas pricing environment has led to a sharp reduction in the number of rigs drilling for natural gas over the last six months. The drop of rig activity in Canada and the U.S. should decrease domestic supply as rates from producing wells decline without new well production replacing the declines. However, even though natural gas prices have shown signs of strengthening recently, there is still considerable uncertainty as to when prices will again rise to above \$7.00 Mcf. Because of the uncertainty in the gas market and the underlying economy Diaz expects that natural gas prices will stay in the range of \$4.00 to \$6.00 per Mcf for the remainder of 2009.

Diaz plans to match capital spending to operating cashflows and has halted new projects until gas prices improve over current levels. Diaz's future exploration program will focus on developing its Canadian properties which can be managed within the Company's capital budget. However, Diaz is also considering various alternatives to its normal operations such as the selling of assets, a reduction of overhead costs, and other Corporation transactions to optimize shareholder value.



Consolidated Balance Sheet

As at (\$ Thousands, unaudited)	March 31 2009	December 31 2008
ASSETS		
Current Assets		
Cash	\$ 246	\$ 544
Accounts receivable	1,537	2,750
Income tax receivable	372	359
Prepaid expense	258	378
	2,413	4,031
Property, plant and equipment (Note 5)	108,648	106,425
Accumulated depletion and depreciation	(67,797)	(53,695)
	40,851	52,730
Total Assets	\$ 43,264	\$ 56,761
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,975	\$ 4,337
Income tax payable	-	-
Bank debt (Note 4)	8,095	8,143
	11,070	12,480
Other Liabilities		
Convertible debentures (Note 8)	6,163	6,094
Future income tax liability	1,792	5,379
Asset retirement obligation (Note 9)	3,398	3,323
Total Other Liabilities	11,353	14,796
	22,423	27,276
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	19,702	19,702
Other equity (Note 8)	847	848
Contributed surplus	1,463	1,442
Accumulated other comprehensive income	1,090	-
Retained earnings (deficit)	(2,261)	7,493
	20,841	29,485
Total Liabilities and Shareholders' Equity	\$ 43,264	\$ 56,761

See Note 1 - Going Concern

Approved by the Board:

(Signed) "R.W. Lamond" Director

(Signed) "C.A. Teare" Director



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

	Three Months Ended	
	2009	March 31 2008
<i>(\$ Thousands, except per share amounts, unaudited)</i>		
Revenue		
Production	\$ 2,553	\$ 3,833
Royalties	(386)	(700)
Interest and other income	81	37
	2,248	3,170
Expenses		
Operating and transportation	941	839
Overhead	447	387
Stock based compensation	21	12
Interest expense	311	363
Foreign exchange loss (gain)	-	63
Depletion, depreciation and accretion	2,566	1,955
Property, plant & equipment impairment (Note 5)	11,408	-
	15,694	3,619
Earnings (loss) before income tax	(13,446)	(449)
Income tax		
Current expense (recovery)	4	2
Future tax expense (recovery)	(3,696)	(70)
Total income tax	(3,692)	(68)
Net loss	(9,754)	(381)
Retained earnings, beginning of period	7,493	11,580
Retained earnings (deficit), end of period	\$ (2,261)	\$ 11,199
Loss per share, basic and diluted	\$ (0.15)	\$ (0.01)



(\$ Thousands, except per share amounts, unaudited)	Three Months Ended	
	2009	March 31 2008
Net earnings (loss)	\$ (9,754)	\$ (381)
Other Comprehensive Income		
Unrealized gain (loss) on translation of consolidated financial statements into reporting currency	1,090	-
Comprehensive Income (Loss)	\$ (8,664)	\$ (381)
Accumulated Other Comprehensive Income (Loss)		
Beginning of Period	\$ -	\$ -
Other Comprehensive Income	1,090	-
Acc. Other Comprehensive Income (Loss) - End of Period	\$ 1,090	\$ -



Consolidated Statement of Cash Flows

(\$ Thousands, unaudited)	Three Months Ended	
	2009	March 31 2008
Cash provided by (used for):		
Operating Activities		
Loss for the period	\$ (9,754)	\$ (381)
Non-cash items:		
Interest expense	69	64
Depreciation, depletion and accretion	2,566	1,955
Property, plant & equipment impairment	11,408	-
Stock based compensation	21	12
Future tax expense (recovery)	(3,696)	(70)
Foreign exchange loss (gain)	-	63
Cash flow from operations	614	1,643
Abandonments	-	(42)
Change in non-cash working capital	1,202	177
	1,816	1,778
Investing Activities		
Property, plant & equipment - additions	(949)	(2,479)
Property, plant & equipment - dispositions	113	-
Change in non-cash working capital	(1,230)	(830)
	(2,066)	(3,309)
Financing Activities		
Convertible debenture (net of expenses)	-	-
Increase (decrease) in bank debt	(48)	1,561
Common Shares		
Issued for cash on exercise of options	-	-
Issued for cash on a flow-through basis	-	-
Share issue costs	-	(5)
Repurchased for cancellation	-	(2)
	(48)	1,554
Increase (decrease) in cash	(298)	23
Cash, beginning of period	544	558
Cash, end of period	\$ 246	\$ 581
Supplementary information regarding cash payments:		
Interest paid during the period	\$ 89	\$ 145
Taxes paid during the period	\$ 4	\$ 17



Notes to the Consolidated Financial Statements (Unaudited)

For the three months ended March 31, 2009

1. Going Concern

The Corporation's principal business activity is the exploration, development and operation of oil and natural gas properties in Canada and in the United States. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Corporation has reported net loss and comprehensive loss in seven of the last eight quarters and has had to book an impairment of its Canadian oil and gas properties of \$2.7 million in Q4 2008 and \$11.4 million in the first quarter of 2009. The Corporation has also had negative working capital for successive years as the current accounts payable balance plus bank debt combine to be larger than the current assets on the balance sheet. However, during the same period, Diaz has had positive cashflows from operations in every quarter. Management's assessment of the Corporation, based on its current cash flow forecast and financial model, is that there is significant doubt as to whether it is a going concern because of the following factors:

- a) Continued weak petroleum prices and natural gas prices particularly will affect the ability of the Corporation to generate cash flows from its operations at satisfactory levels.
- b) The current recession and resulting equity market decline has hampered the Corporation's ability to raise funds for its drilling programs.
- c) As at March 31, 2009, the Company has a \$9.0 million secured loan with a Canadian financial institution that is under review. There is no assurance that the loan will be renewed at the current level or that the financial institution will maintain the current interest rate premium.

Management's plan for addressing the above factors are as follows:

- a) Operating cash flows are projected to be positive in the current oil and gas price environment but are not sufficient to support significant investment in the development of the Corporation's properties during the 2009 year. To mitigate the risk to operating cash flows, the Company has put in place fixed price gas contracts in Canada which allow the Company to maintain positive cash flows to a low of \$3.50 Mcf for the remainder of the 2009 year and into 2010. Also, the Company has restricted capital projects for the 2009 year to closely match the cash flows generated from operations.
- b) In preparation for the return of new investment into the equity markets the Company has focused its efforts on building a strong foundation for the future upside potential of the Company. Diaz has been acquiring an expanded land base in Canada, focused on specific criteria, at reasonable prices, for repeatable exploration projects that can be activated once financing can be acquired or sufficient operating cash flows are achieved. So far in 2009, Diaz has acquired 9,611 acres (6,795 net acres) in Alberta and Saskatchewan. The Alberta lands were acquired to expand existing holdings at Big Bend. Diaz's primary exploration focus is in Saskatchewan where the Company now has acreage on prospective Viking, Shaunavon and Bird Bear oil plays.
- c) The current bank loan is based on Canadian proven oil and gas reserve values. The Company to date has been unable to bank on its proven reserves in the United States. If necessary, the Company may sell some or all of its U.S. assets to maintain its balance sheet integrity.

There can be no assurance that the steps management is taking will be successful and any adjustments necessary to the financial statements if the Corporation ceases to be a going concern could be material.



2. 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, 2008

3. Change in Accounting Policies

Foreign Currency Translation

Effective January 1, 2009, the Company adopted the current rate method for foreign currency translation. Under this method, all balance sheet items are converted at the period end exchange rate and income statement transactions are translated at an average rate for the period. Gains or losses arising from translation are charged to the statement of comprehensive income. Previously, the Company used the temporal method of translation whereby gains and losses on foreign currency translation were charged to the income statement.

Future Accounting Standards - International Financial Reporting Standards (IFRS)

During 2008, the CICA Accounting Standards Board ("ACSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and operations.

The International Accounting Standards Board has issued an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost accounting is expected to reduce the administrative burden in the transition from current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the requirement that an impairment test, under IFRS standards be carried out at the transition date.

To date, the CFO, the primary sponsor for the project, has prepared a summary level changeover plan for IFRS conversion that has been presented to the Audit Committee of the Board of Directors. Hallmarks of the change over plan include, initial definition of the tasks required for conversion, a timeline for the completion of the tasks, an estimate of the effort and duration associated with the conversion, prioritization of tasks, and the assignment of key personnel within the organization.



4. 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.

At March 31, 2009, the Company had 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 3.25% at March 31, 2009. The loan is payable on demand and is under review. The loan is secured by an interest in certain property, a general assignment of book debts and a \$20,000,000 first floating charge demand debenture. At March 31, 2009, \$8,095,000 of the loan was outstanding (December 31, 2008 - \$8,143,000).

In May 2009, Diaz completed the sale of its interest in a non-operated oil property in the Carmangay, Alberta area for \$1.0 million and reduced its line of credit to \$8.0 million from \$9.0 million.

5. Property, Plant and Equipment

At March 31, 2009, unproven property costs of \$1,198,000 were excluded from the depletable cost base (Q1 2008 - \$1,173,000). Unproved property costs are tested for impairment separately from those costs subject to depletion whereby the carrying value of the property must be less than or equal to the current market value.

For the three month period ended March 31, 2009, administrative expenses of \$212,000 related to exploration and development activities were capitalized as part of property, plant and equipment (Q1 2008 - \$253,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At March 31, 2009, future costs were \$6,530,000 (Q1 2008 - \$5,118,000).

The Company based its estimates on the future price quotes for U.S. gas at Nymex, adjusted for heat content and basis differential and for Canadian gas at the AECO price to the end of 2011 and held constant thereafter. Oil prices used were WTI for U.S. properties and Edmonton Light for Canadian properties, both adjusted for quality differentials.

Price Estimates Used for Ceiling Test				
	Nymex (\$U.S./Mcf)	AECO (\$Cdn/Mcf)	Edmonton Light (\$Cdn/Bbl)	WTI (\$U.S./Bbl)
2009	4.20	4.43	68.24	54.11
2010	5.95	6.16	77.75	61.98
2011	6.82	6.93	83.68	67.02

Prices are held constant thereafter

The Company reviewed the carrying value of the Canadian and U.S. oil and gas properties for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost center is not recoverable from the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. For the quarter ended March 31, 2009, an impairment of the Canadian properties was calculated to be \$11,408,000.



6. 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, 2008 and March 31, 2009	67,177,752	\$ 19,702

	Amount (thousands)
Contributed Surplus	
Balance, December 31, 2008	\$ 1,442
Option compensation for the period	21
Balance, March 31, 2009	\$ 1,463

Normal Course Issuer Bid

During the three months ended March 31, 2009, Diaz did not repurchase any of its Common Shares.

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, which expires on September 25, 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 March 31, 2009, 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 2009 three month period as they were all out-of-the-money compared with the average stock prices during those periods.

Shares Outstanding	Three Months Ended	
	2009	March 31 2008
Weighted average shares outstanding	67,177,752	67,212,967
Dilutive effect of stock options	-	-
Diluted weighted average shares outstanding	67,177,752	67,212,967



Stock Option Plan

As at March 31, 2009, 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 3,175,817 options with a weighted average exercise price of \$0.502 are exercisable at March 31, 2009.

Fixed Options	Three Months Ended March 31, 2009 Weighted Average		2008 Weighted Average	
	Shares	Exercise Price	Shares	Exercise Price
Outstanding, beginning of period	4,857,500	\$ 0.415	3,575,000	\$ 0.645
Granted	-	-	2,497,500	0.250
Exercised	-	-	-	-
Expired / cancelled	-	-	(1,215,000)	0.282
Outstanding, end of period	4,857,500	\$ 0.415	4,857,500	\$ 0.415
Options exercisable, end of period	3,175,817	\$ 0.502	3,175,817	\$ 0.502

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 2009 by \$21,000 (Q1 2008 - \$12,000).

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	WA Future Value per Option
2006	4.24	4.0	0.43	0.5212
2007	4.28	4.0	0.61	0.2027
2008	3.40	4.5	0.53	0.1182

7. 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)	Three Months Ended March 31	
	2009	2008
Current liabilities	\$ 11,070	\$ 13,333
Less Current assets	2,413	\$ 3,929
Net current debt	8,657	9,404
Convertible Debentures	6,163	5,896
Net debt	14,820	15,300
Annualized Cashflow from Operations	2,456	6,572
Months estimated to repay net current debt	42.30	17.17
Months estimated to repay net debt	72.41	27.94

The increase in net current debt repayability for the three month period ended March 31, 2009, compared with Q1 2008 resulted from the sharp decline in realized oil and natural gas prices during the current quarter. The resulting Q1 2009 ratio is unacceptably high and management is taking steps to reduce the debt side of the equation.

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.

8. 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)	Three Months Ended March 31		Year Ended December 31
	2009	2008	2008
Liability component of debenture before adjustments	6,094		5,832
Adjustments - expensed to interest			
Accretion of liability	40		147
Issue costs	29		115
Liability component of debenture	\$ 6,163	\$	6,094

As of March 31, 2009, debenture issue costs of \$590,000 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 trading price of a Common Share.

9. Asset Retirement Obligation

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated ARO is capitalized as part of the net capitalized asset base and the depletion of the capitalized asset retirement cost is determined on a basis consistent with depletion of the Company's other assets. With time, accretion will increase the carrying amount of the obligation. Accretion is expensed.

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)	Three Months Ended	
	March 31 2009	Year Ended December 31 2008
Asset Retirement Obligation, beginning of period	\$ 3,323	\$ 3,069
Liabilities incurred	-	26
Liabilities settled	-	(51)
Accretion expense	71	264
Foreign exchange difference	4	15
Asset Retirement Obligation, end of period	\$ 3,398	\$ 3,323

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5,031,000 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.

10. Commitments

The Company has committed to future minimum payments under an operating base lease covering office facilities as follows:

Year ended December 31,	Amount (Thousands)
2009	162
2010	180
	\$ 342

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

Fixed Price Volume	Fixed Price (\$/Mcf)	Time Period for Contract
475 Mcfd	5.06	Apr 1, 2009 - Oct 31, 2009
475 Mcfd	4.85	Apr 1, 2009 - Dec 31, 2009
950 Mcfd	6.36	Nov 1, 2009 - Mar 31, 2010



11. 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, which includes the convertible debenture, 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.

Liquidity risk

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to match operating cash flow to future expenditures and to arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company’s existing undeveloped properties. Accordingly, the Company may need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner.



Foreign currency exchange risk

The Company is exposed to fluctuations in foreign currency exchange rates as many of the Company's financial instruments are denominated in United States dollars while the functional currency of the Company is Canadian dollars. As a result, fluctuations in the United States dollar against the Canadian dollar could result in unanticipated fluctuations in the Company's financial results which are denominated in Canadian dollars.

The Company's exposure to foreign currency exchange risk at March 31, 2009 can be summarized as follows:

(\$ Thousands)	Balance Sheet	Canada	USA
	Total	Cdn \$ Equivalent	
Cash and cash equivalents	246	-	246
Accounts receivable	1,537	1,227	310
Accounts payable	(2,975)	(2,540)	(435)
Total	(1,192)	(1,313)	121

12. Related Party Transactions

Diaz and Sharon Energy Ltd. ("Sharon") have certain common officers and directors. In addition, at March 31, 2009, Humboldt (approximately 26%) and its directors and officers (approximately 1%) owned approximately 27% of the outstanding shares of Sharon. During the past four years, Sharon, through an informal joint venture arrangement with Diaz, participated to earn a 20% working interest in an exploration and land acquisition program in southern Alberta, operated by Diaz, and Diaz participated to earn a 50% working interest in an exploration and land acquisition program in Texas, operated by Sharon.

At March 31, 2009, Diaz owed Sharon \$365,000 (Q1 2008 – \$175,000) through the normal course of business.

In Q1 2009, Diaz provided certain overhead services to Humboldt, which Humboldt reimbursed Diaz for in the amount of \$72,000 (Q1 2008 - \$72,000).



13. 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, unaudited)	Three Months Ended March 31	
	2009	2008
Revenue (net)		
Canada	1,889	\$ 2,288
United States	359	882
	\$ 2,248	\$ 3,170
Interest Expense		
Canada	\$ 311	\$ 363
United States	-	-
	\$ 311	\$ 363
Current Taxes		
Canada	\$ 1	\$ 2
United States	3	-
	\$ 4	\$ 2
Cash Flow from Operations		
Canada	\$ 390	\$ 912
United States	224	731
	\$ 614	\$ 1,643
Depletion, Depreciation & Accretion		
Canada	\$ 1,607	\$ 1,353
United States	959	602
	\$ 2,566	\$ 1,955
Net Loss and Comprehensive Loss		
Canada	\$ (9,281)	\$ (393)
United States	(473)	12
	\$ (9,754)	\$ (381)
Additions to Property, Plant & Equipment		
Canada	\$ 914	\$ 1,514
United States	35	965
	\$ 949	\$ 2,479
Identifiable Assets, Net		
Canada	\$ 30,910	\$ 48,330
United States	12,354	12,891
	\$ 43,264	\$ 61,221



CORPORATE INFORMATION

Directors

Robert W. Lamond
Calgary, Alberta

Charles A. Teare
Calgary, Alberta

Donald K. Clark
Calgary, Alberta

Clive M. Stockdale ⁽²⁾
Vancouver, British Columbia

Allan R. Twa ⁽²⁾⁽³⁾
Calgary, Alberta

Raj Agrawal ⁽¹⁾
Calgary, Alberta

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
Calgary, Alberta

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: DZR

Diaz Resources Ltd.
Suite 1800, 633 – 6 Avenue SW
Calgary, Alberta T2P 2Y5
Telephone : (403) 269-9889
Fax : (403) 269-9890
Website : www.diazresources.com



This page left intentionally blank