

DIAZ RESOURCES LTD.



Q2

Interim Report
For the Six Month Period
Ended June 30, 2009



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

August 13, 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 six months ended June 30, 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 six months ended June 30, 2009, has not been reviewed or audited by the Company's auditor.

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 oil and natural gas, with the majority of the Company's revenue being generated from gas production in Alberta and Texas. Diaz's current focus is on oil development in Alberta and Saskatchewan.

Corporate Summary

<i>(Thousands, except per share amounts, unaudited)</i>	Six Months Ended June 30	
	2009	2008
Financial		
Revenue	\$ 4,180	\$ 7,746
Cash flow from operations	1,436	4,382
per share, diluted	0.02	0.07
Loss for the period	(10,373)	(249)
per share, diluted	(0.15)	0.00
Capital additions	1,753	4,232
Dispositions	1,107	18
Net current debt	7,695	8,481
Convertible debentures*	6,233	5,961
Total assets	39,826	61,114
Total shares outstanding at period end	67,178	67,218
Operations		
Production		
Gas (MMcfd)	3.8	4.4
Oil (Bopd)	104	155
BOEd (6 Mcf = 1 Bbl)	733	887
Product Prices		
Gas (\$/Mcf)	\$5.09	\$8.69
Oil (\$/Bbl)	\$49.05	\$87.50

* 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 six months ended June 30, 2009.



Message to Shareholders

Diaz's revenue and cashflow results for the six months ended June 30, 2009, were significantly lower when compared with the prior year six month period, as production declines in Canada and in the U.S. combined with lower oil and natural gas prices.

During the second quarter of 2009, Diaz recompleted a significant oil well at Lloydminster, Alberta. As a result of the improved performance in oil production from this well, Diaz has licenced an offset location and plans to commence drilling in early September. This will be the first of a multi-well program in the area. Diaz is the operator and holds a 50% working interest.

Financial

Revenue for the six month period ended June 30, 2009, decreased to \$4.4 million compared with \$9.4 million for the prior year. Revenue for the second quarter reduced to \$1.8 million compared with \$5.6 million in the prior year quarter. Cash flow from operations for the first six months of 2009 decreased to \$1.4 million or \$0.02 per share compared with \$4.4 million or \$0.07 per share for the prior year. Cash flow for the second quarter of \$822,000 was down compared with \$2.7 million for the prior year quarter. Diaz reported a loss for the six month period of \$10.4 million or (\$0.15) per share versus a loss of \$249,000 or nil per share in the prior year six month period, as it took an impairment write down against its oil and gas assets of \$11.4 million during Q1 2009. For the second quarter, Diaz reported a loss of \$619,000 compared with earnings of \$132,000 in the prior year quarter.

Capital expenditures for the six month period ended June 30, 2009, totalled \$1.8 million compared with \$4.2 million in the prior year. Capital expenditures were financed from cash flow from operations and the sale of an oil and gas property. At June 30, 2009, Diaz had net current debt of \$7.7 million versus \$8.5 million at the beginning of the year. Diaz also had convertible debentures outstanding of \$7.1 million that mature on March 26, 2012.

Production

The Company's production for the six month period ended June 30, 2009, decreased 17% to 733 BOEd compared with the prior year average of 887 BOEd. For the second quarter, production rates declined 29% to 675 BOEd compared with 955 BOEd in the prior year quarter. The steep production declines in the second quarter resulted in Canada from the shut-in of production at the Big Bend field which will be put back on production in late fall, and in the U.S. resulting from the shut-in of production at the Black Owl field combined with declining production rates at the Provident City, Hound Dog and Allen Ranch fields.

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. The proceeds from the sale were used to reduce Diaz's bank debt.

Business Outlook

The continued weak natural gas pricing environment has led to a sharp reduction in the number of rigs drilling for natural gas over the last eight months. The drop of rig activity in Canada and the U.S. should decrease domestic supply as production rates from existing wells decline without offsetting new production. However, 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 \$3.50 to \$5.50 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
July 13, 2009

R.W. Lamond, Chairman

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. Management uses cash flow from operations as a measure of operating performance as the measure is not exposed to non-cash working capital movements, which for a small company, could be material and misleading. The reconciliation of cash flow from operating activities and cash flow from operations is as follows:

(\$ Thousands, unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Cash provided by (used for) Operating Activities:	\$ 1,007	\$ 2,090	\$ 2,810	\$ 3,868
Adjusted for:				
Abandonments	9	\$ 75	\$ 9	\$ 117
Change in non-cash working capital	(194)	574	(1,383)	397
Cash flow from operations	\$ 822	\$ 2,739	\$ 1,436	\$ 4,382

The Company also presents annualized cash flow from operations which equals four times the quarterly cash flow from operations. Cash flow from operations per share is 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 six month period ended June 30, 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		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Gas - Canada				
Retlaw	794	954	851	913
Enchant	477	526	432	499
Leahurst	237	113	305	57
Big Bend	111	364	258	206
Therien	154	178	139	171
Jaslan	106	158	107	131
Carmangay	102	166	99	141
Other	699	596	666	566
Gas - Canada (Mcf)	2,680	3,055	2,857	2,684
Oil & Liquids - Canada				
Parkman	27	63	26	46
Lloydminster	30	21	25	19
Carmangay	-	15	3	16
Red Earth	10	6	9	6
Hays	-	6	1	6
Harmattan	8	5	8	6
Other	19	23	26	42
Oil & Liquids - Canada (Bopd)	94	139	98	141
BOEd - Canada (6 Mcf = 1 Bbl)	541	648	574	588
Gas - U.S.				
Provident City	417	625	393	656
Hound Dog	138	364	156	401
Black Owl	3	417	143	372
Allen Ranch	74	131	77	138
Other	154	223	146	141
Gas - U.S. (Mcf)	786	1,760	915	1,708
Oil & Liquids - U.S.				
Provident City	3	5	4	6
Black Owl	-	6	2	6
Other	-	3	-	2
Oil & Liquids - U.S. (Bopd)	3	14	6	14
BOEd - U.S. (6 Mcf = 1 Bbl)	134	307	159	299
Gas - Company (Mcf)	3,466	4,815	3,772	4,392
Oil and Liquids - Company (Bopd)	97	153	104	155
BOEd - Company	675	955	733	887

The Company's total production for the six months ended June 30, 2009, decreased 17% to 733 BOEd compared with the prior year average of 887 BOEd. For the second quarter, total production declined 30% to 675 BOEd compared with 955 BOEd in the prior year quarter.

In Canada, natural gas production rates in the quarter were 12% lower than in the prior year, averaging 2.7 MMcf compared with 3.1 MMcf in the prior year quarter. A significant event during the second quarter was the shut-in of the Big Bend field pending higher natural gas prices. Canadian oil production in the second quarter decreased to 94 Bopd from 139 Bopd in the prior year quarter as production



declines from the Parkman field area and the sale of the Carmangay oil property (15 Bopd in the prior year) were slightly offset by increased production at the Lloydminster oil field resulting from a workover during the quarter. For the six month period, natural gas rates were slightly higher than in the prior year mainly due to the third quarter timing of first production of the Leahurst field in the prior year.

In the U.S., natural gas production rates in the second quarter and in the six month period decreased by 55% and 46% respectively compared with the prior year periods with declines in all producing areas. Also, during the second quarter the Black Owl field was shut-in and is unlikely to be returned to production.

Product Prices	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Canada				
Gas (\$/Mcf)	\$ 4.09	\$ 8.51	\$ 5.26	\$ 8.38
Oil & Liquids (\$/Bbl)	\$ 64.64	\$ 102.32	\$ 48.80	\$ 85.88
\$/BOE	\$ 31.53	\$ 62.02	\$ 34.50	\$ 58.78
U.S.				
Gas (\$/Mcf)	\$ 3.79	\$ 10.95	\$ 4.56	\$ 9.18
Oil & Liquids (\$/Bbl)	\$ 62.90	\$ 118.26	\$ 53.17	\$ 104.73
\$/BOE	\$ 23.75	\$ 68.13	\$ 28.35	\$ 57.29
\$/BOE - Company	\$ 29.98	\$ 63.99	\$ 33.17	\$ 58.28

In Canada and in the U.S., average natural gas and oil prices for the second quarter and for the six month period were approximately 50% lower than realized in the comparative prior year periods.

Canada Natural Gas Prices Adjusted For Fixed Gas Contracts	Three Months Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
Canada				
Gas (\$/Mcf)	\$ 4.09	\$ 8.51	\$ 5.26	\$ 8.38
Fixed gas contract cost (benefit) / Mcf	\$ (0.54)	\$ 1.06	\$ (1.17)	\$ 0.33
Gas price without contracts \$/Mcf	\$ 3.55	\$ 9.57	\$ 4.09	\$ 8.71
Fixed gas contract benefit (cost) \$ '000	\$ 131	\$ (294)	\$ 607	\$ (162)

As detailed above, Diaz added \$607,000 to its revenue for the six month period ended June 30, 2009, compared with a cost of \$162,000 in the prior year as a result of committing to fixed gas contracts. For the second quarter, Diaz added \$131,000 to its revenue compared with a cost of \$294 in the prior year quarter.



Revenue from Oil and Gas Production (\$ Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Canada				
Natural gas	\$ 998	\$ 2,366	\$ 2,719	\$ 4,090
Oil and natural gas liquids	555	1,291	866	2,199
Total - Canada	1,553	3,657	3,585	6,289
U.S.				
Natural gas	271	1,754	754	2,855
Oil and natural gas liquids	20	153	58	253
Total - U.S.	291	1,907	812	3,108
Total Production Revenue - Company	\$ 1,844	\$ 5,564	\$ 4,397	\$ 9,397

For the three and six month periods ended June 30, 2009, the approximate 50% reduction in average natural gas and oil prices combined with declines in production to yield a drop in revenues of 86% in the second quarter and a reduction of revenues of 53% for the six month period compared with the prior year periods.

Production declines in the U.S. were larger than in Canada during the second quarter and six month periods resulting in a sharper drop in U.S. revenues compared with the prior year periods than was realized in Canada.

Royalties (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Canada				
Crown	\$ (23)	\$ 372	\$ 83	\$ 665
Freehold	63	167	181	255
Royalties	\$ 40	\$ 539	\$ 264	\$ 920
per BOE	\$ 0.81	\$ 9.14	\$ 2.54	\$ 8.61
Royalties as a percentage of revenue	2.4%	14.1%	7.0%	14.2%
U.S.				
Royalties	\$ (23)	\$ 609	\$ 139	\$ 928
per BOE	\$ (1.87)	\$ 21.76	\$ 4.86	\$ 17.10
Royalties as a percentage of revenue	-7.9%	31.9%	17.2%	29.8%
Total Royalties - Company	\$ 17	\$ 1,148	\$ 403	\$ 1,848
per BOE	\$ 0.32	\$ 21.76	\$ 3.04	\$ 11.46

In Canada, royalty expense decreased overall as a result of weak natural gas and oil prices which in Alberta also results in a reduced royalty rate. During the second quarter of 2009, the annual gas cost allowance adjustment resulted in a credit to Diaz further reducing crown royalties. Diaz anticipates royalty rates should average approximately 10% to 14% of Canadian revenue for the second half of 2009 as natural gas prices are expected to recover to the \$4.50 - \$5.50 per Mcf range.

In the United States, royalties decreased in the second quarter resulting from the receipt of a refund from the Railroad Commission for royalty paid on a deep gas well that qualified for a temporary exemption. Royalty's are generally fixed rates in the U.S. and Diaz expects royalty rates to average 28% to 31% of U.S. revenue during the second half of 2009.



Operating and Transportation Expense (\$ Thousands, except per BOE amount)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	Canada	\$ 881	\$ 999	\$ 1,739
per BOE	17.90	16.96	16.74	16.37
U.S.	54	95	137	183
per BOE	4.39	3.38	4.79	3.37
Total Expense - Company	935	1,094	1,876	1,933
per BOE	\$ 15.21	\$ 12.59	\$ 14.16	\$ 12.00

In Canada and in the U.S., the three and six month period operating costs per BOE were higher than the comparable prior year periods as production declines did not result in an equal proportionate reduction of related costs.

In total, operating costs for Q2 2009 decreased by 15% to \$935,000 compared with \$1.1 million in Q2 2008. Operating costs for the six month period reduced by only 3% to \$1.88 million compared with 1.93 million in the prior year.

Overhead & Stock Based Compensation (\$ Thousands, except per BOE amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	Cash compensation costs	\$ 321	\$ 336	\$ 688
Cash compensation recovered	(37)	(56)	(94)	(113)
Net cash compensation	284	\$ 280	\$ 594	\$ 562
Other overhead costs	335	323	649	635
Other overhead recovered	(73)	(53)	(125)	(106)
Net other overhead	262	270	524	529
Total cash overhead	546	550	1,118	1,091
Stock based compensation costs	21	12	41	24
Recovered from third parties	(557)	(102)	(643)	(201)
Capitalized	(45)	(50)	(83)	(105)
Net overhead	(35)	410	433	809
per BOE	\$ (0.56)	\$ 5.36	\$ 3.26	\$ 6.50

Cash compensation and other overhead costs of \$546,000 for Q2 2009 and \$1.1 million for the six month period closely matched prior period results. However, net overhead costs for the second quarter of 2009 and for the six month period were significantly reduced compared with the prior year periods as Diaz's recoveries from third parties of \$557,000 for the second quarter 2009 and \$643,000 for the six month period were much higher than the comparable prior year periods. The increased recovery resulted from a one-time adjustment to Management fees charged to a third party in Q2 2009.



Interest Expense (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest expense	\$ 226	\$ 306	\$ 468	\$ 606
Debenture accretion and issue costs	70	65	139	128
Interest expense	296	371	607	734
per BOE	4.80	4.26	4.39	4.55
Average interest rate on bank debt	3.4%	5.6%	3.6%	6.0%
Average bank debt	8,017	9,055	8,041	9,219
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 for the second quarter decreased to \$296,000 for Q2 2009 compared with \$371,000 in Q2 2008. For the six month period, interest expense decreased to \$607,000 compared with \$734,000 for the prior year. The decreases for the quarter and year to date comparatives resulted from lower average interest rates and lower average bank debt in the current year.

Income Taxes (\$ Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Canada				
Current tax expense	\$ 4	\$ 9	\$ 5	\$ 9
Future tax expense (recovery)	(377)	113	(3,811)	(11)
Total - Canada	(373)	122	(3,806)	(2)
U.S.				
Current tax expense	-	29	3	31
Future tax expense (recovery)	(124)	150	(386)	204
Total - U.S.	(124)	179	(383)	235
Total - Company	\$ (497)	\$ 301	\$ (4,189)	\$ 233

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 June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Canada				
Depletion and depreciation	\$ 1,082	\$ 1,553	\$ 2,619	\$ 2,840
ARO accretion	71	64	141	129
Total - Canada	1,153	1,617	2,760	2,969
per BOE	23.41	27.41	26.56	27.76
U.S.				
Depletion and depreciation	697	662	1,655	1,263
ARO accretion	2	1	3	3
Total - U.S.	699	663	1,658	1,266
per BOE	57.06	23.70	57.85	23.32
Total - Company	1,852	2,280	4,418	4,235
per BOE	\$ 30.10	\$ 26.22	\$ 33.33	\$ 26.27

In Q2 2009, the Company's depletion, depreciation and accretion costs have increased to \$30.10 per BOE compared with \$26.22 per BOE for the prior year quarter. For the six month period, the rate increased to \$33.33 per BOE from \$26.27 BOE for the prior year. Depletion expense is calculated based on the Company's proved reserves.

In Canada, the Company took an impairment write down on its assets of \$11.4 million in Q1 2009 which resulted in a 15% reduction in the depletion rate per BOE for the second quarter compared with the prior year quarter. For the six month period, the depletion rate reduction resulted in a 4% reduction compared with the prior year.

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

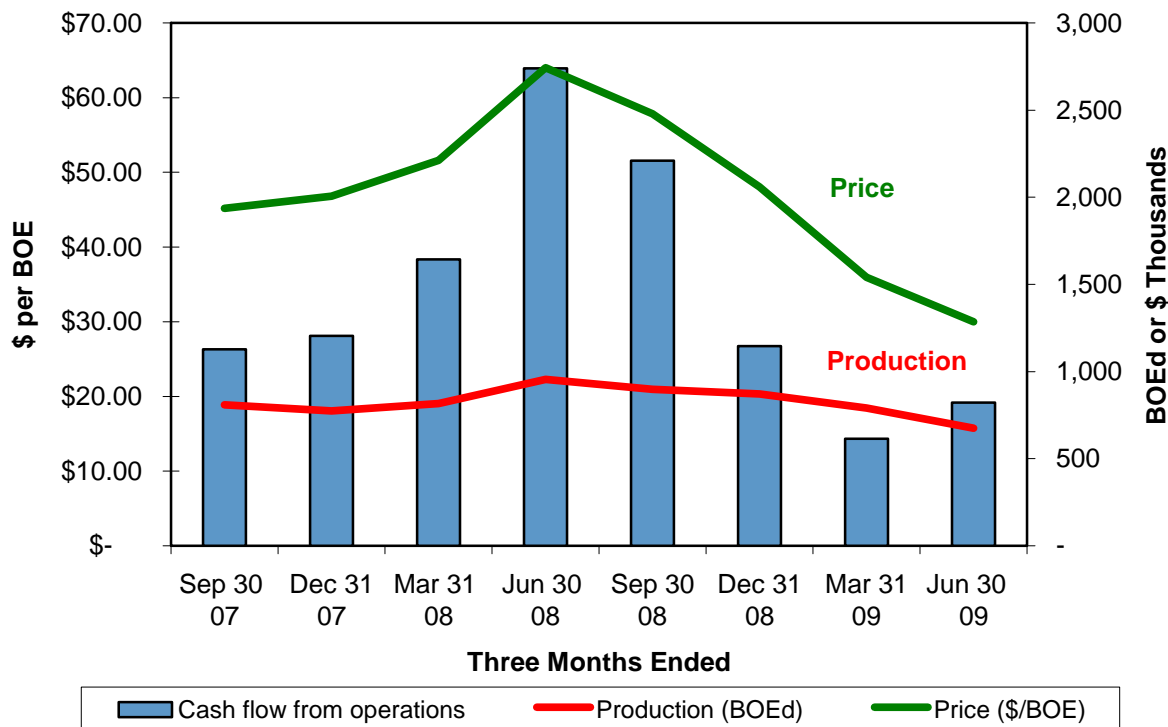
(\$ Thousands, except production and per share amounts)	Three Months Ended							
	2009	2008			2007			
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Production (BOEd)	675	791	871	899	955	816	773	809
Price (\$/BOE)	\$ 29.98	\$ 35.93	\$ 48.06	\$ 57.84	\$ 63.99	\$ 51.59	\$ 46.82	\$ 45.19
Total revenue	1,932	2,248	3,389	3,964	4,576	3,170	2,970	2,850
Cash flow from operations per share (basic and diluted)	822 0.01	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
Cash provided by operating activities per share (basic and diluted)	1,007 0.01	1,816 0.03	573 0.01	3,408 0.05	2,090 0.04	1,778 0.03	1,157 0.02	1,068 0.02
Earnings (loss) per share (basic and diluted)	(619) (0.01)	(9,754) (0.15)	(3,561) (0.05)	(277) 0.00	132 0.00	(381) (0.01)	(168) 0.00	(671) (0.01)
Overhead	(55)	447	567	442	398	387	472	488
Fixed asset additions (net)	(190)	836	2,074	1,504	1,735	2,479	2,384	2,890
Total assets	39,826	43,264	56,761	62,927	61,114	61,221	60,794	59,850
Convertible debentures*	6,233	6,163	6,094	6,027	5,961	5,896	5,832	5,770
Net current debt	7,695	8,657	8,449	7,891	8,481	9,404	8,542	8,335

* 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 six months ended June 30, 2009.

Diaz's production rate peaked at 955 BOEd in Q2 2008 and declined during the last four quarters. Q2 2008 also had the highest average price per BOE. Since Q2 2008, prices have dropped by over 50% 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 the six months ended June 30, 2009, with a net current debt of \$7.7 million compared with \$8.5 million at the beginning of the year. On June 30, 2009, the Company had an \$8.0 million secured loan with a Canadian financial institution that has been renewed. 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.

The Company has drawn \$7.7 million of the revolving loan facility at June 30, 2009. Capital requirements relating to the facility have been satisfied as of June 30, 2009; however, \$1.0 million of the facility expires on October 31, 2009, leaving the Company with only a \$7.0 million facility after that date. Diaz is currently actively marketing non-producing properties in the U.S. to raise funds to cover this shortfall.

In addition, at June 30, 2009, the Company had convertible debentures of \$7.1 million that mature on March 26, 2012.

Management believes that current market conditions have sufficiently improved to allow the Company to raise capital through an equity offering; however, 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 six month period ended June 30, 2009.

Normal Course Issuer Bid

During the six months ended June 30, 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 prices weakened during the second quarter ended June 30, 2009, to close at spot prices of \$3.80 USD/Mcf at Henry Hub and \$3.20 CDN/Mcf in Alberta (AECO). Natural 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 natural 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 \$108,000 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 June 30, 2009, was \$5.1 million (2008 – \$5.0 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 before royalty.

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 June 30, 2009.



As at June 30, 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.

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 June 30, 2009.

Outlook

The continued weak natural gas pricing environment has led to a sharp reduction in the number of rigs drilling for natural gas over the last eight months. The drop of rig activity in Canada and the U.S. should decrease domestic supply as production rates from existing wells decline without offsetting new production. However, 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 \$3.50 to \$5.50 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)	June 30 2009	December 31 2008
ASSETS		
Current Assets		
Cash	\$ 56	\$ 544
Accounts receivable	1,075	2,750
Income tax receivable	343	359
Prepaid expense	344	378
	1,818	4,031
Property, plant and equipment (Note 5)	106,614	106,425
Accumulated depletion and depreciation	(68,606)	(53,695)
	38,008	52,730
Total Assets	\$ 39,826	\$ 56,761
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,843	\$ 4,337
Income tax payable	-	
Bank debt (Note 4)	7,670	8,143
	9,513	12,480
Other Liabilities		
Convertible debentures (Note 8)	6,233	6,094
Future income tax liability	1,063	5,379
Asset retirement obligation (Note 9)	3,464	3,323
Total Other Liabilities	10,760	14,796
	20,273	27,276
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	19,702	19,702
Other equity (Note 8)	847	848
Contributed surplus	1,483	1,442
Accumulated other comprehensive income	401	-
Retained earnings (deficit)	(2,880)	7,493
	19,553	29,485
Total Liabilities and Shareholders' Equity	\$ 39,826	\$ 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 & Retained Earnings (Deficit)

(\$ Thousands, except per share amounts, unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenue				
Production	\$ 1,844	\$ 5,564	\$ 4,397	\$ 9,397
Royalties	(17)	(1,148)	(403)	(1,848)
Interest and other income	105	160	186	197
	1,932	4,576	4,180	7,746
Expenses				
Operating and transportation	935	1,094	1,876	1,933
Overhead	(55)	398	392	785
Stock based compensation	20	12	41	24
Interest expense	296	371	607	734
Foreign exchange loss (gain)	-	(12)	-	51
Depletion, depreciation and accretion	1,852	2,280	4,418	4,235
Property, plant & equipment impairment (Note 5)	-	-	11,408	-
	3,048	4,143	18,742	7,762
Earnings (loss) before income tax	(1,116)	433	(14,562)	(16)
Income tax				
Current expense (recovery)	4	38	8	40
Future tax expense (recovery)	(501)	263	(4,197)	193
Total income tax	(497)	301	(4,189)	233
Net earnings (loss)	(619)	132	(10,373)	(249)
Retained earnings, beginning of period	(2,261)	11,199	7,493	11,580
Retained earnings (deficit), end of period	\$ (2,880)	\$ 11,331	\$ (2,880)	\$ 11,331
Loss per share, basic and diluted	\$ (0.01)	\$ 0.00	\$ (0.15)	\$ 0.00



**Consolidated Statements of Comprehensive Loss and
Accumulated Other Comprehensive Income (Loss)**

(\$ Thousands, except per share amounts, unaudited)	Three Months Ended		Six Months Ended	
	June 30 2009	2008	2009	June 30 2008
Net earnings (loss)	\$ (619)	\$ 132	\$ (10,373)	\$ (249)
Other Comprehensive Income				
Unrealized gain (loss) on translation of consolidated financial statements into reporting currency	(689)	-	401	-
Comprehensive Income (Loss)	\$ (1,308)	\$ 132	\$ (9,972)	\$ (249)
Accumulated Other Comprehensive Income (Loss)				
Beginning of Period	1,090	-	\$ -	\$ -
Other Comprehensive Income	(689)	-	401	-
Acc. Other Comprehensive Income (Loss) - End of Period	\$ 401	\$ -	\$ 401	\$ -



Consolidated Statement of Cash Flows

(\$ Thousands, unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Cash provided by (used for):				
Operating Activities				
Earnings (Loss) for the period	\$ (619)	\$ 132	\$ (10,373)	\$ (249)
Non-cash items:				
Interest expense	70	64	139	128
Depreciation, depletion and accretion	1,852	2,280	4,418	4,235
Property, plant & equipment impairment	-	-	11,408	-
Stock based compensation	20	12	41	24
Future tax expense (recovery)	(501)	263	(4,197)	193
Foreign exchange loss (gain)	-	(12)	-	51
	822	2,739	1,436	4,382
Abandonments	(9)	(75)	(9)	(117)
Change in non-cash working capital	194	(574)	1,383	(397)
	1,007	2,090	2,810	3,868
Investing Activities				
Property, plant & equipment - additions	(804)	(1,753)	(1,753)	(4,232)
Property, plant & equipment - dispositions	994	18	1,107	18
Change in non-cash working capital	(922)	11	(2,152)	(819)
	(732)	(1,724)	(2,798)	(5,033)
Financing Activities				
Increase (decrease) in bank debt	(425)	(491)	(473)	1,070
Common Shares				
Share issue costs	-	-	-	(5)
Repurchased for cancellation	-	(3)	-	(5)
	(425)	(494)	(473)	1,060
Increase (decrease) in cash	(150)	(128)	(461)	(105)
Net effect of foreign exchange translations on cash flows	(40)	-	(27)	-
Cash, beginning of period	246	581	544	558
Cash, end of period	\$ 56	\$ 453	\$ 56	\$ 453
Supplementary information regarding cash payments:				
Interest paid during the period	\$ 379	\$ 150	\$ 468	\$ 295
Taxes paid during the period	\$ 4	\$ 9	\$ 8	\$ 26



Notes to the Consolidated Financial Statements (Unaudited)

For the six month period ended June 30, 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 Q1 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 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 weak equity market may hamper the Corporation's ability to raise funds for its drilling programs.

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 cashflows 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 cashflows are achieved. 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.

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 June 30, 2009, the Company had a \$8.0 million revolving production loan with a Canadian financial institution. The revolving production loan has been renewed as of July 23, 2009. The next review is scheduled to be completed prior to April 30, 2010. The loan continues as three distinct parts totalling \$8.0 million as follows:

Part 1, revolving: \$6.25 million, prime plus 2.00%;

Part 2, revolving: \$0.75 million, prime plus 3.25%;

Part 3, non-revolving: \$1.00 million, prime plus 5.00%, principal due October 31, 2009.

At June 30, 2009, \$7,670,000 of the loan was outstanding (December 31, 2008 - \$8,143,000).

5. Property, Plant and Equipment

At June 30, 2009, unproven property costs of \$1,326,000 were excluded from the depletable cost base (Q2 2008 - \$799,000). 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 six month period ended June 30, 2009, administrative expenses of \$799,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2008 - \$500,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At June 30, 2009, future costs were \$6,551,000 (2008 - \$4,106,000).

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	4.49	4.23	84.83	73.39
2010	6.16	6.16	88.26	76.60
2011	6.96	6.93	91.38	79.56
2012	6.96	6.93	91.38	79.56
2013	6.96	6.93	91.38	79.56
2014	6.96	6.93	91.38	79.56

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. There was no impairment required for the three months ended June 30, 2009.

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, March 31, 2009 and June 30, 2009	67,177,752	\$ 19,702
Contributed Surplus		
Balance, December 31, 2008		\$ 1,442
Option compensation for the period		41
Balance, June 30, 2009		\$ 1,483

Normal Course Issuer Bid

During the six months ended June 30, 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 June 30, 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 and six month periods as they were all out-of-the-money compared with the average stock prices during those periods.



Shares Outstanding	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Weighted average shares outstanding	67,177,752	67,228,758	67,177,752	67,231,059
Dilutive effect of stock options	-	-	-	-
Diluted weighted average shares outstanding	67,177,752	67,228,758	67,177,752	67,231,059

Stock Option Plan

The Corporation's Stock Option Plan permits the granting of options to purchase Common Shares to officers, directors, employees and other persons who provide ongoing management or consulting services to the Corporation and its subsidiaries. The Stock Option Plan currently limits the number of Common Shares that may be issued on exercise of Options to 10% of the number of outstanding Common Shares from time to time. Any increase in the issued and outstanding Common Shares will result in an increase in the available number of Common Shares issuable under the Stock Option Plan. Additionally, any exercise of options will make new grants available under the Stock Option Plan.

Options granted pursuant to the Stock Option Plan have a term not to exceed five years and vest as follows:

- 1/3 on grant date
- 1/3 on first anniversary of grant date
- 1/3 on second anniversary of grant date

As at June 30, 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 \$0.4146 per share. A total of 3,175,817 options with a weighted average exercise price of \$0.5017 are exercisable at June 30, 2009.

Fixed Options	Six Months Ended		2008	
	June 30, 2009		Weighted Average	
	Shares	Exercise Price	Shares	Exercise Price
Outstanding, beginning of period	4,857,500	\$ 0.4146	3,575,000	\$ 0.6450
Granted	-	\$ -	2,497,500	\$ 0.2500
Exercised	-	\$ -	-	\$ -
Expired	-	\$ -	(1,075,000)	\$ 0.3100
Cancelled	-	\$ -	(140,000)	\$ 0.7079
Outstanding, end of period	4,857,500	\$ 0.4150	4,857,500	\$ 0.4146
Options exercisable, end of period	3,175,817	\$ 0.5017	3,175,817	\$ 0.5017

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 six months ended June 30, 2009, by \$41,000 (2008 - \$24,000).

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

No options have been issued in 2009.



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)	Six Months Ended June 30	
	2009	2008
Current liabilities	\$ 9,513	\$ 12,745
Less Current assets	1,818	4,264
Net current debt	7,695	8,481
Convertible Debentures	6,233	5,961
Net debt	13,928	14,442
Annualized Cashflow from Operations	3,288	8,764
Months estimated to repay net current debt	28.08	11.61
Months estimated to repay net debt	50.83	19.77

The increase in net current debt repayability for the six month period ended June 30, 2009, compared with 2008 resulted from the sharp decline in realized oil and natural gas prices during the period. The resulting 2009 ratio is unacceptably high and management is taking steps to reduce the debt side of the equation.

The Company's \$8.0 million credit facility imposes a similar capital restriction on the net current debt to annualized cashflows ration 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)	Six Months Ended	Year Ended
	June 30 2009	December 31 2008
Liability component of debenture before adjustments	6,094	5,832
Adjustments - expensed to interest		
Accretion of liability	80	147
Issue costs	59	115
Liability component of debenture	\$ 6,233	\$ 6,094

As of June 30, 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)	Six Months Ended	Year Ended
	June 30 2009	December 31 2008
Asset Retirement Obligation, beginning of period	\$ 3,323	\$ 3,069
Liabilities incurred	-	26
Liabilities settled	-	(51)
Accretion expense	144	264
Foreign exchange difference	(3)	15
Asset Retirement Obligation, end of period	\$ 3,464	\$ 3,323

The total undiscounted amount of estimated cash flows required to settle the obligation is \$5,056,000 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 2010 and 2015.



10. Commitments

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

Period ended June 30,	Amount (Thousands)
2009	108
2010	180
	\$ 288

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	July 1, 2009 - Oct 31, 2009
475 Mcfd	4.85	July 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 amortized cost using the effective interest method. Accounts payable are designated as "other financial liabilities" and are carried at amortized cost using the effective interest method.

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. The maximum exposure to credit risk is approximately \$223,000 which represents accounts receivable balances in excess of 90 days. The Company has not impaired these amounts as they are partially offset by related accounts payable balances and are expected to be recovered.



Interest rate risk

The Company is exposed to risks from interest rate fluctuation on its bank loan which is based on Prime rates. Interest rate risk is specific to the interest expense charged to income on the Company's bank debt. The Company believes a 25% volatility is a reasonable measure when assessing the potential impact of a change in interest rate. Variations in interest rates on the Company's bank debt could have resulted in gains (losses) impacting net earnings as at June 30, 2009, as follows:

(\$ Thousands)	Favourable 25% Change	Unfavourable 25% Change
Interest rate	\$ 117	\$ (117)

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 June 30, 2009, can be summarized as follows:

(\$ Thousands)	Balance Sheet	Canada	USA
	Total	Cdn \$ Equivalent	
Cash and cash equivalents	56	-	56
Accounts receivable	1,075	875	200
Accounts payable	(1,843)	(1,424)	(419)
Total	(712)	(549)	(163)

Commodity price risk

Inherent to the Company's business of producing petroleum and natural gas is the commodity price risk where fluctuations in the market price of petroleum and natural gas could significantly impact the Company's ability to generate cash flow from operating activities. The Company believes a 10% volatility is a reasonable measure when assessing the potential impact of commodity price changes on natural gas and oil prices. Variations in commodity prices could have resulted in gains (losses) impacting net earnings as at June 30, 2009, as follows:

(\$ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Natural gas price	\$ 347	\$ (347)
Crude oil price	\$ 92	\$ (92)



12. Related Party Transactions

Diaz and Sharon Energy Ltd. ("Sharon") have certain common officers and directors. In addition, at June 30, 2009, Humboldt Capital Corporation and its directors and officers owned approximately 27% of the outstanding shares of Sharon and approximately 35% of Diaz.

At June 30, 2009, Sharon owed Diaz \$111,000 (2008 – Diaz owed Sharon \$443,000) through the normal course of business.

For the six month period ended June 30, 2009, Diaz provided certain overhead services to Humboldt, which Humboldt reimbursed Diaz for in the amount of \$144,000 (2008 - \$144,000).



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)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Revenue (net)				
Canada	\$ 1,618	\$ 3,278	\$ 3,507	\$ 5,566
United States	314	1,298	673	2,180
	\$ 1,932	\$ 4,576	\$ 4,180	\$ 7,746
Interest Expense				
Canada	\$ 296	\$ 371	\$ 607	\$ 734
United States	-	-	-	-
	\$ 296	\$ 371	\$ 607	\$ 734
Current Taxes				
Canada	\$ 4	\$ 7	\$ 5	\$ 9
United States	-	31	3	31
	\$ 4	\$ 38	\$ 8	\$ 40
Cash Flow from Operations				
Canada	\$ 608	\$ 1,617	\$ 998	\$ 2,529
United States	214	1,122	438	1,853
	\$ 822	\$ 2,739	\$ 1,436	\$ 4,382
Depletion, Depreciation & Accretion				
Canada	\$ 1,153	\$ 1,617	\$ 2,760	\$ 2,970
United States	699	663	1,658	1,265
	\$ 1,852	\$ 2,280	\$ 4,418	\$ 4,235
Net Loss				
Canada	\$ (257)	\$ (188)	\$ (9,538)	\$ (581)
United States	(361)	320	(834)	332
	\$ (618)	\$ 132	\$ (10,372)	\$ (249)
Additions to Property, Plant & Equipment				
Canada	\$ 434	\$ 1,157	\$ 1,348	\$ 2,671
United States	370	596	405	1,561
	\$ 804	\$ 1,753	\$ 1,753	\$ 4,232
Identifiable Assets, Net				
Canada	\$ 29,011	\$ 48,223	\$ 29,011	\$ 48,223
United States	10,815	12,891	10,815	12,891
	\$ 39,826	\$ 61,114	\$ 39,826	\$ 61,114



CORPORATE INFORMATION

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- ⁽¹⁾ Member of the Audit Committee
⁽²⁾ Member of the Compensation Committee
⁽³⁾ Member of the Corporate Governance Committee

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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

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