



DIAZ RESOURCES LTD.



Q3

Financial Statements
For the Nine Month Period
Ended September 30, 2009



Consolidated Balance Sheet

As at (\$ Thousands, unaudited)	September 30 2009	December 31 2008
ASSETS		
Current Assets		
Cash	\$ 99	\$ 544
Accounts receivable	1,587	2,750
Income tax receivable	316	359
Prepaid expense	341	378
	2,343	4,031
Property, plant and equipment (Note 5)	104,446	106,425
Accumulated depletion and depreciation	(69,064)	(53,695)
	35,382	52,730
Total Assets	\$ 37,725	\$ 56,761
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,454	\$ 4,337
Bank debt (Note 4)	7,107	8,143
	9,561	12,480
Other Liabilities		
Convertible debentures (Note 8)	6,304	6,094
Future income tax liability	405	5,379
Asset retirement obligation (Note 9)	3,532	3,323
Total Other Liabilities	10,241	14,796
	19,802	27,276
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	19,702	19,702
Other equity (Note 8)	847	848
Contributed surplus	1,521	1,442
Accumulated other comprehensive income	(197)	-
Retained earnings (deficit)	(3,950)	7,493
	17,923	29,485
Total Liabilities and Shareholders' Equity	\$ 37,725	\$ 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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Revenue				
Production	\$ 1,444	\$ 4,777	\$ 5,841	\$ 14,174
Royalties	(149)	(902)	(552)	(2,750)
Interest and other income	(70)	89	116	286
	1,225	3,964	5,405	11,710
Expenses				
Operating and transportation	543	1,038	2,419	2,971
Overhead	304	442	696	1,227
Stock based compensation	38	171	79	195
Interest expense	338	337	945	1,071
Foreign exchange loss (gain)	3	78	3	129
Depletion, depreciation and accretion	1,504	2,223	5,922	6,458
Property, plant & equipment impairment (Note 5)	-	-	11,408	-
	2,730	4,289	21,472	12,051
Earnings (loss) before income tax	(1,505)	(325)	(16,067)	(341)
Income tax				
Current expense (recovery)	25	4	33	44
Future tax expense (recovery)	(460)	(52)	(4,657)	141
Total income tax	(435)	(48)	(4,624)	185
Net earnings (loss)	(1,070)	(277)	(11,443)	(526)
Retained earnings, beginning of period	(2,880)	11,331	7,493	11,580
Retained earnings (deficit), end of period	\$ (3,950)	\$ 11,054	\$ (3,950)	\$ 11,054
Loss per share, basic and diluted	\$ (0.02)	\$ 0.00	\$ (0.17)	\$ (0.01)



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

(\$ Thousands, except per share amounts, unaudited)	Three Months Ended		Nine Months Ended	
	September 30 2009	2008	September 30 2009	2008
Net earnings (loss)	\$ (1,070)	\$ (277)	\$ (11,443)	\$ (526)
Other Comprehensive Income				
Unrealized gain (loss) on translation of consolidated financial statements into reporting currency	(598)	-	(197)	-
Comprehensive Income (Loss)	\$ (1,668)	\$ (277)	\$ (11,640)	\$ (526)
Accumulated Other Comprehensive Income (Loss)				
Beginning of Period	401	-	\$ -	\$ -
Other Comprehensive Income	(598)	-	(197)	-
Acc. Other Comprehensive Income (Loss) - End of Period	\$ (197)	\$ -	\$ (197)	\$ -



Consolidated Statement of Cash Flows

(\$ Thousands, unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Cash provided by (used for):				
Operating Activities				
Earnings (Loss) for the period	\$ (1,070)	\$ (277)	\$ (11,443)	\$ (526)
Non-cash items:				
Interest - amortization of debenture issue costs	71	66	210	194
Depreciation, depletion and accretion	1,504	2,223	5,922	6,458
Property, plant & equipment impairment	-	-	11,408	-
Stock based compensation	38	171	79	195
Future tax expense (recovery)	(460)	(52)	(4,657)	141
Foreign exchange loss (gain)	3	78	3	129
	86	2,209	1,522	6,591
Abandonments	(24)	(126)	(33)	(243)
Change in non-cash working capital	(494)	1,325	889	928
	(432)	3,408	2,378	7,276
Investing Activities				
Property, plant & equipment - additions	(386)	(1,505)	(2,139)	(5,737)
Property, plant & equipment - dispositions	837	1	1,944	19
Change in non-cash working capital	624	(453)	(1,528)	(1,272)
	1,075	(1,957)	(1,723)	(6,990)
Financing Activities				
Increase (decrease) in bank debt	(563)	(822)	(1,036)	248
Common Shares				
Share issue costs	-	-	-	(5)
Repurchased for cancellation	-	(6)	-	(11)
	(563)	(828)	(1,036)	232
Increase (decrease) in cash	80	623	(381)	518
Net effect of foreign exchange translations on cash flows	(37)	-	(64)	-
Cash, beginning of period	56	453	544	558
Cash, end of period	\$ 99	\$ 1,076	\$ 99	\$ 1,076
Supplementary information regarding cash payments:				
Interest paid during the period	\$ 268	\$ 117	\$ 736	\$ 412
Taxes paid during the period	\$ 25	\$ -	\$ 33	\$ 80



Notes to the Consolidated Financial Statements (Unaudited)

For the nine month period ended September 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 Company may not be able to obtain funding 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 or received from other sources.
- b) The Company has been successful in disposing of \$4.4 million in oil & gas properties and has raised approximately \$920,000 after expenses from an equity private placement which should provide sufficient capital to fund its active drilling program at Lloydminster, Alberta.

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 September 30, 2009, the Company had an \$8.0 million revolving production loan with a Canadian financial institution. At September 30, 2009, \$7,107,000 of the loan was outstanding (December 31, 2008 - \$8,143,000). The revolving production loan was reviewed on October 15, 2009, as the Company had disposed of properties previously included in the Company's borrowing base. The next review is scheduled to be completed prior to April 30, 2010. The loan continues as two distinct parts totalling \$6.35 million as follows:

Part 1, revolving:	\$5.60 million,	prime plus 2.00%;
Part 2, revolving:	\$0.75 million,	prime plus 3.50%;

5. Property, Plant and Equipment

At September 30, 2009, unproven property costs of \$581,000 were excluded from the depletable cost base (Q3 2008 - \$924,000). 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 nine month period ended September 30, 2009, administrative expenses of \$938,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2008 - \$698,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At September 30, 2009, future costs were \$6,539,000 (2008 - \$4,057,000).

Price Estimates Used for Ceiling Test				
	Nymex (\$U.S./Mcf)	AECO (\$Cdn/Mcf)	Edmonton Light (\$Cdn/Bbl)	WTI (\$U.S./Bbl)
2009	5.02	4.65	72.90	67.24
2010	6.54	6.08	76.97	71.00
2011	7.25	6.73	80.79	74.46
2012	7.25	6.73	80.79	74.46
2013	7.25	6.73	80.79	74.46
2014	7.25	6.73	80.79	74.46

Prices are held constant thereafter

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.



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 September 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 September 30, 2009	67,177,752	\$ 19,702
Contributed Surplus		
Balance, December 31, 2008		\$ 1,442
Option compensation for the period		79
Balance, September 30, 2009		\$ 1,521

Normal Course Issuer Bid ("NCIB")

During the nine months ended September 30, 2009, Diaz did not repurchase any of its Common Shares. Diaz's NCIB expired 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 September 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 nine month periods as they were all out-of-the-money compared with the average stock prices during those periods.



Shares Outstanding	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Weighted average shares outstanding	67,177,752	67,206,941	67,177,752	67,222,961
Dilutive effect of stock options	-	-	-	-
Diluted weighted average shares outstanding	67,177,752	67,206,941	67,177,752	67,222,961

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 September 30, 2009, there are a total of 4,707,500 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.4174 per share. A total of 3,908,322 options with a weighted average exercise price of \$0.4516 are exercisable at September 30, 2009.

Fixed Options	Nine Months Ended September 30, 2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average 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	(150,000)	\$ 0.3270	(140,000)	\$ 0.7079
Outstanding, end of period	4,707,500	\$ 0.4174	4,857,500	\$ 0.4146
Options exercisable, end of period	3,908,322	\$ 0.4516	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 nine months ended September 30, 2009, by \$79,000 (2008 - \$195,000).

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)	Nine Months Ended September 30	
	2009	2008
Current liabilities	\$ 9,561	\$ 14,461
Less Current assets	2,343	6,570
Net current debt	7,218	7,891
Convertible Debentures	6,304	6,027
Net debt	13,522	13,918
Annualized Cashflow from Operations	344	8,788
Months estimated to repay net current debt	251.79	10.78
Months estimated to repay net debt	471.70	19.01

The increase in net current debt repayability for the nine month period ended September 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 has taken and is taking steps to reduce the debt side of the equation.

The Company's credit facility imposes a similar capital restriction on the net current debt to annualized cashflows ratio 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)	Nine Months Ended September 30 2009	Year Ended December 31 2008
Liability component of debenture before adjustments	6,094	5,832
Adjustments - expensed to interest		
Accretion of liability	122	147
Issue costs	88	115
Liability component of debenture	\$ 6,304	\$ 6,094

As of September 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)	Nine Months Ended September 30 2009	Year Ended December 31 2008
Asset Retirement Obligation, beginning of period	\$ 3,323	\$ 3,069
Liabilities incurred	-	26
Liabilities settled	-	(51)
Accretion expense	218	264
Foreign exchange difference	(9)	15
Asset Retirement Obligation, end of period	\$ 3,532	\$ 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 September 30, 2009	Amount (Thousands)
2009	61
2010	180
	\$ 241

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	Oct 1, 2009 - Oct 31, 2009
475 Mcfd	4.85	Oct 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 \$695,000 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 September 30, 2009, as follows:

(\$ Thousands)	Favourable 25% Change	Unfavourable 25% Change
Interest rate	\$ 184	\$ (184)

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 September 30, 2009, can be summarized as follows:

(\$ Thousands)	Balance Sheet	Canada	USA
	Total	Cdn \$ Equivalent	
Cash and cash equivalents	99	-	99
Accounts receivable	1,587	1,385	202
Accounts payable	(2,454)	(1,967)	(487)
Total	(768)	(582)	(186)

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 September 30, 2009, as follows:

(\$ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Natural gas price	\$ 443	\$ (443)
Crude oil price	\$ 141	\$ (141)



12. Related Party Transactions

Diaz and Sharon Energy Ltd. ("Sharon") and Tuscany Energy Ltd. ("Tuscany") and Paris Energy Inc. ("Paris") and Humboldt Capital Corporation ("Humboldt") have certain common officers and directors. In addition, at September 30, 2009, Humboldt and its directors and officers owned approximately:

- 27% of Sharon common shares,
- 43% of Diaz common shares,
- 43% of Tuscany common shares, and
- 22% of Paris common shares.

At September 30, 2009, Sharon owed Diaz \$111,000 (2008 – Diaz owed Sharon \$238,000) through the normal course of business.

For the nine month period ended September 30, 2009, Diaz recovered the following amounts related to certain overhead services from:

	September 30, 2009	September 30, 2008
Sharon	\$633,000	\$113,000
Humboldt	\$216,000	\$216,000
Tuscany	\$52,000	Nil
Paris	\$7,000	Nil

13. Subsequent Events

On October 16, 2009, Diaz raised \$939,900 by way of a non-brokered private placement of 9,399,000 common shares. In connection with the private placement, a significant shareholder of Diaz, Humboldt Capital Corporation ("Humboldt"), sold 3,131,000 common shares at \$0.10 per share pursuant to a "gypsy swap" over the facilities of the Toronto Stock Exchange, and then bought the same number of common shares under the private placement. In addition to the common shares purchased pursuant to the gypsy swap, Humboldt and R.W. Lamond, Humboldt's controlling shareholder and the Chairman of Diaz, also purchased an aggregate of 6,048,000 common shares under the private placement for a purchase price of \$604,800. Humboldt and R.W. Lamond, own 29,549,467 common shares of Diaz representing approximately 38.6% of the outstanding common shares of Diaz. Total commissions of \$21,317 were paid to brokers related to the gypsy swap and private placement.

The common shares issued pursuant to the private placement will be restricted from trading for a period of four months ending February 16, 2010. Subsequent to the issue there are 76,576,752 common shares issued and outstanding.

On October 20, 2009, Diaz closed the sale of its Parkman, Saskatchewan, oil property. Net proceeds from the sale totaled \$2.5 million.



14. Segmented Information

The Company's only industry segment is the exploration for and development and production of oil and natural gas. The following table sets forth the geographical segments of the Company's operations between Canada and the United States.

(\$ Thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Revenue (net)				
Canada	\$ 1,078	\$ 3,015	\$ 4,585	\$ 8,581
United States	147	949	820	3,129
	\$ 1,225	\$ 3,964	\$ 5,405	\$ 11,710
Interest Expense				
Canada	\$ 338	\$ 337	\$ 945	\$ 1,071
United States	-	-	-	-
	\$ 338	\$ 337	\$ 945	\$ 1,071
Current Taxes				
Canada	\$ 12	\$ (3)	\$ 17	\$ 6
United States	13	7	16	38
	\$ 25	\$ 4	\$ 33	\$ 44
Cash Flow from Operations				
Canada	\$ 26	\$ 1,460	\$ 1,024	\$ 3,989
United States	60	749	498	2,602
	\$ 86	\$ 2,209	\$ 1,522	\$ 6,591
Depletion, Depreciation & Accretion				
Canada	\$ 1,002	\$ 1,748	\$ 3,762	\$ 4,718
United States	502	475	2,160	1,740
	\$ 1,504	\$ 2,223	\$ 5,922	\$ 6,458
Net Income (Loss)				
Canada	\$ (814)	\$ (444)	\$ (10,353)	\$ (1,025)
United States	(255)	167	(1,089)	499
	\$ (1,069)	\$ (277)	\$ (11,442)	\$ (526)
Additions to Property, Plant & Equipment				
Canada	\$ 231	\$ 798	\$ 1,579	\$ 3,469
United States	155	707	560	2,268
	\$ 386	\$ 1,505	\$ 2,139	\$ 5,737
Dispositions of Property, Plant & Equipment				
Canada	\$ 50	\$ -	\$ 1,000	\$ -
United States	787	1	944	19
	\$ 837	\$ 1	\$ 1,944	\$ 19
Identifiable Assets, Net				
Canada	\$ 26,910	\$ 50,036	\$ 26,910	\$ 50,036
United States	10,815	12,891	10,815	12,891
	\$ 37,725	\$ 62,927	\$ 37,725	\$ 62,927



CORPORATE INFORMATION

Directors

Robert W. Lamond
Calgary, Alberta

Charles A. Teare
Calgary, Alberta

Donald K. Clark
Calgary, Alberta

Clive M. Stockdale ⁽¹⁾⁽²⁾
Vancouver, British Columbia

Raj Agrawal ⁽¹⁾
Calgary, Alberta

John G.F. McLeod ⁽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

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