



Diaz Resources Ltd.

Q3 2010 Interim Report
For the Nine Months Ended
September 30, 2010



Table Of Contents

Corporate Profile 2
Corporate Summary..... 2
Message to Shareholders 3
Management’s Discussion and Analysis (“MD&A”) 8
Consolidated Financial Statements (Unaudited) 24
Notes to the Consolidated Financial Statements (Unaudited) 28
CORPORATE INFORMATION 41

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 oil production in Alberta. The Company also has natural gas revenues generated in Alberta and Texas. Diaz's current focus is on oil development in Alberta and Saskatchewan.

Corporate Summary

<i>(Thousands, except shares and per share amounts)</i>	Nine Months Ended Sept 30	
	2010	2009
Financial		
Revenue (net of royalty expense)	\$ 4,933	\$ 5,405
Cash flow from operations *	1,127	1,522
per share, diluted	0.01	0.02
Loss for the period	(3,702)	(11,443)
per share, diluted	(0.04)	(0.17)
Capital additions	3,585	2,139
Dispositions	346	1,944
Net capital additions	3,239	195
Net current debt	6,714	7,218
Convertible debentures**	6,604	6,304
Total assets	34,722	37,725
Total shares outstanding at period end	85,903	67,178
Operations		
Production		
Gas (MMcfd)	2.4	3.5
Oil (Bopd)	122	98
BOEd (6 Mcf = 1 Bbl)	519	680
Product Prices		
Gas (\$/Mcf)	\$4.79	\$4.65
Oil (\$/Bbl)	\$62.25	\$53.13

* Non-GAAP measure. Please see the reconciliation of "cash flow from operations" to "cash flow from operating activities" after the shareholders message.

** Convertible debentures have a face value of \$7.1 million and mature on March 26, 2012. See Note 7, "Convertible Debentures", in the notes to the financial statements for the nine months ended September 30, 2010.

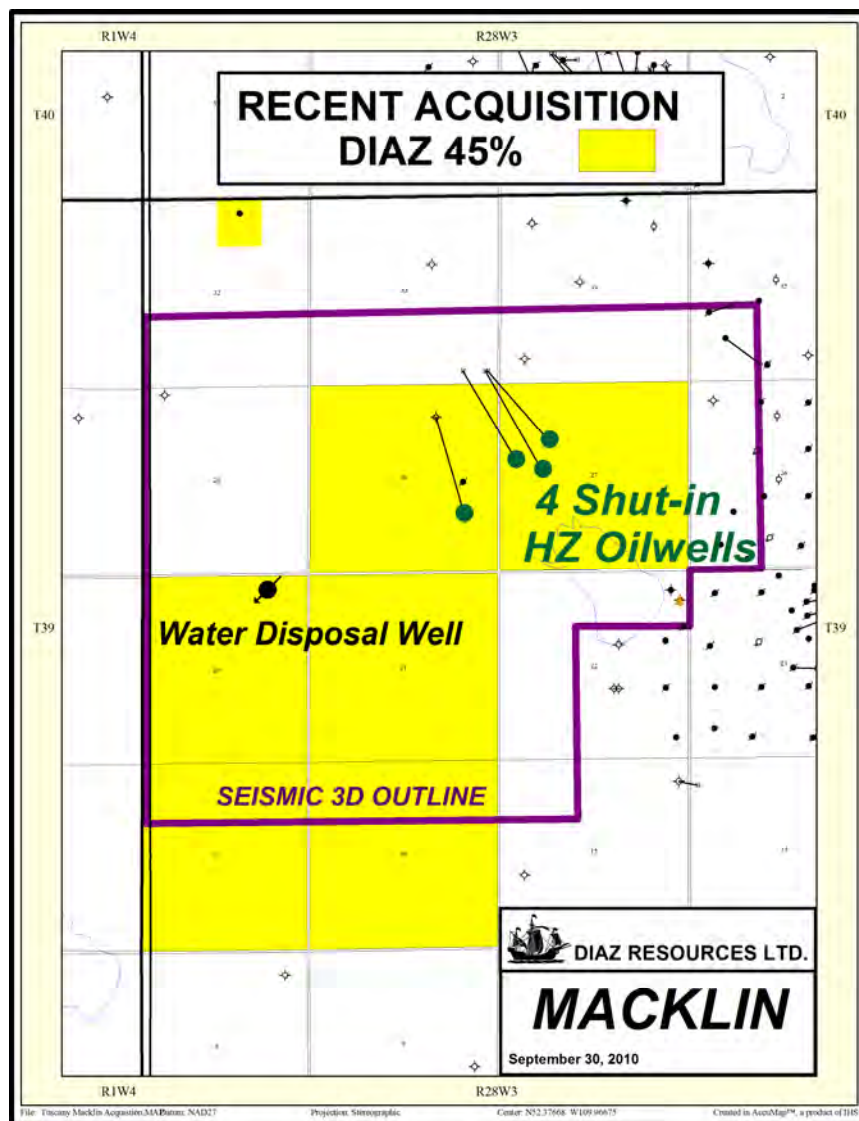
Message to Shareholders

Highlights

Diaz management has focused for the last two years on expanding its oil production. As of the third quarter, we are pleased to report that Diaz oil revenues exceeded natural gas revenues in Canada for the first quarter ever. This resulted from the addition of three new wells at the Company's Lloydminster field late in the second quarter, combined with the shut-in of several natural gas wells that had marginal economics during the low summer gas price season. The gas wells will be brought back onto production when gas prices increase as we move into the winter heating season.

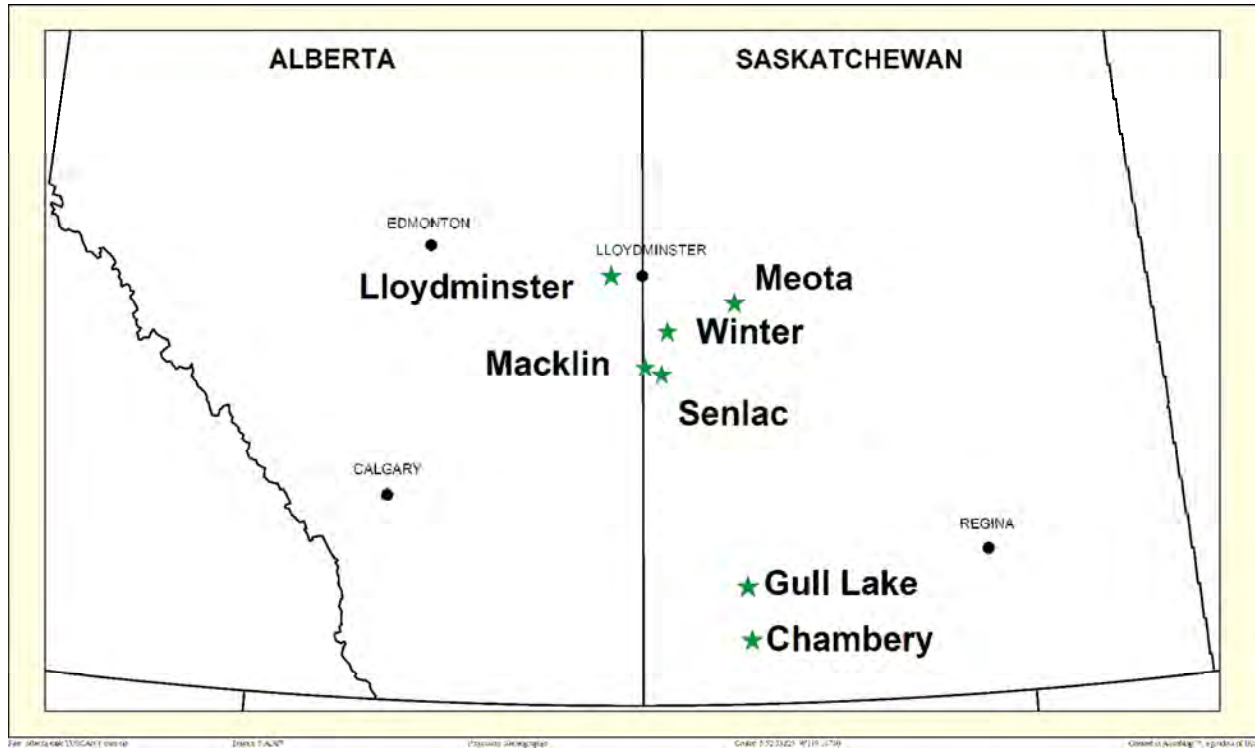
Diaz plans to continue development drilling at its Lloydminster heavy oil pool while continuing to build an inventory of acreage, prospective for heavy oil accumulations in Alberta and Saskatchewan.

Late in the quarter, Diaz acquired a 45% interest in a property at Macklin, Saskatchewan. The property contains four shut-in oil wells, a water disposal well, 3-D seismic over the lease area, and 3,770 acres under lease. Diaz believes the property's four wells can be reactivated. The wells were producing a combined 58 bopd when they were shut-in. The Company plans to reactivate the first well before the end of the year.



Exploration and Development

Below is a map of the current active exploration and development areas for the Company:



With the decline of natural gas prices in Canada Diaz changed its exploration focus in early 2009 exclusively to oil prospects.

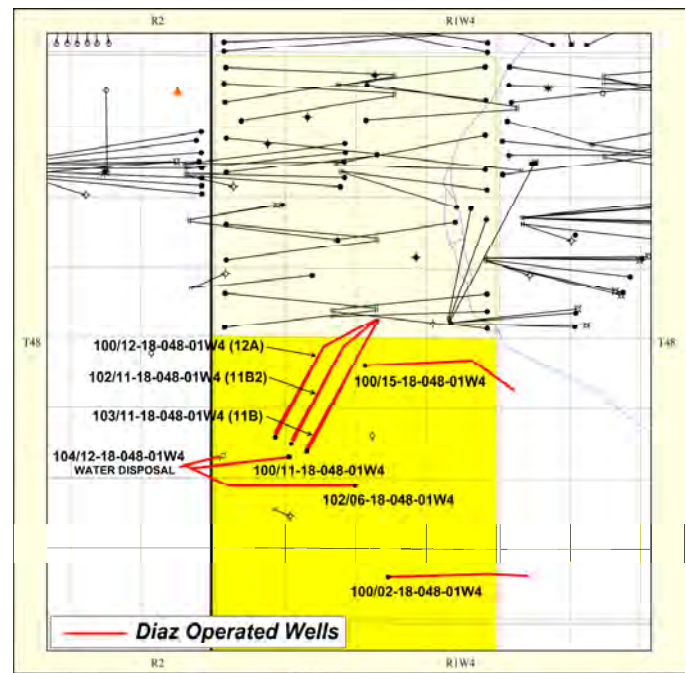
To date, Diaz has acquired oil and gas leases on five prospects in Alberta (5,080 gross acres, 3,018 net acres) and seven prospects in Saskatchewan (18,262 gross acres, 10,661 net acres) for a total inventory of ten heavy oil projects and two medium/light oil projects. The primary pay zones are Lloydminster and Dina in Alberta and the Shaunavon and Birdbear zones in Saskatchewan.

Lloydminster Drilling Program

Lloydminster, Alberta – Working Interest 50%

Diaz has a 50% working interest in 7 heavy oil wells (3.5 net wells). The Lloydminster field is the primary development focus of the Company. Five wells are currently on production at rates varying from 35 to 55 bopd and two wells are shut in awaiting completion of a water disposal well which was drilled in October. Included in the seven wells are three new wells that were drilled during Q2 2010.

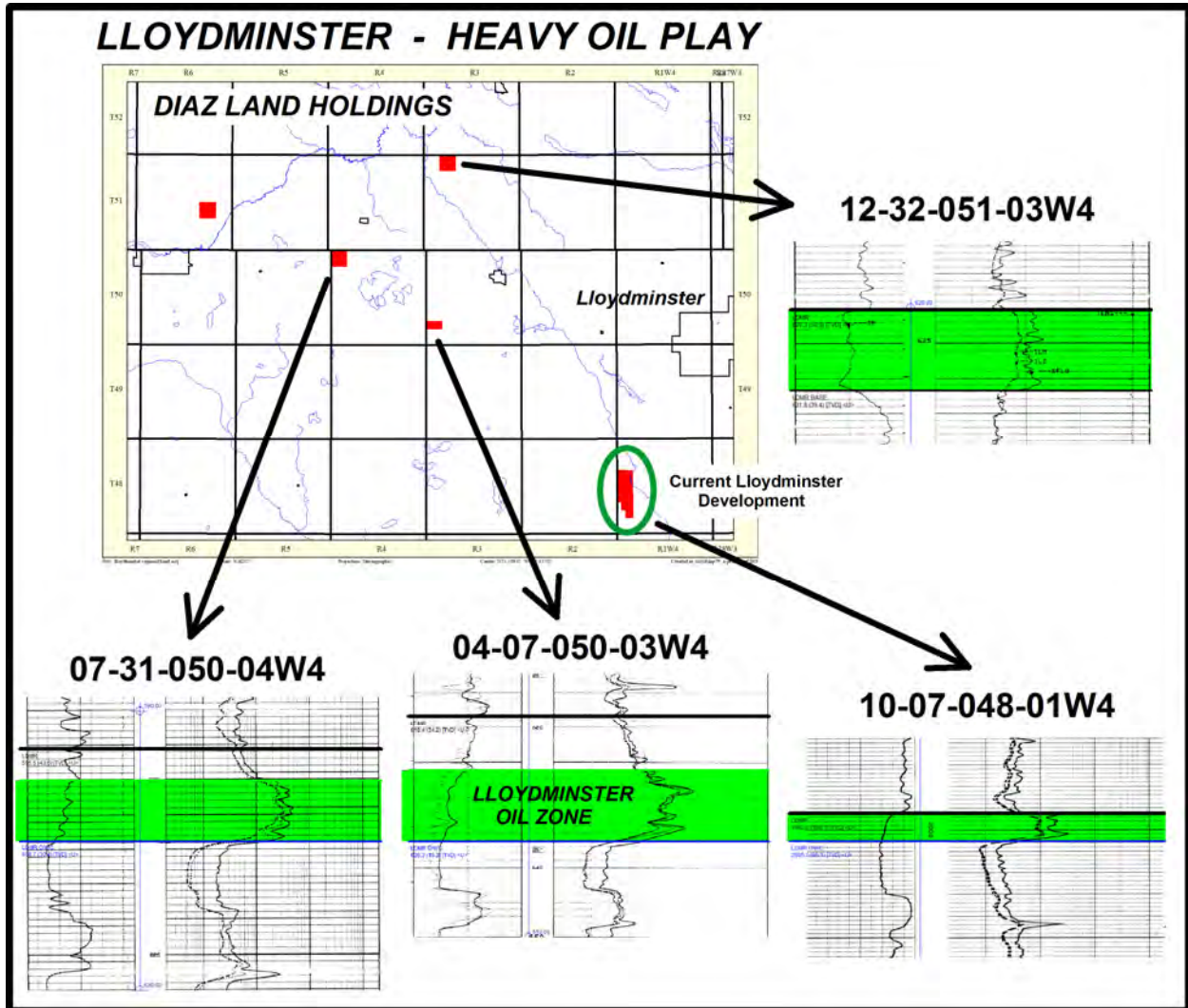
Diaz believes the Lloydminster heavy oil play may support up to 32 wells on this section, with initial production rates of approximately 60 Bopd per well. On the adjacent map, the Lloydminster Section 18-48-01 (yellow) indicates the location of Diaz's seven producing wells. Diaz believes the project has very attractive economics with heavy oil prices in excess of \$60 per barrel, the Alberta drilling royalty credit and a 5% crown royalty for the first year of production. Diaz plans to continue development drilling at the Lloydminster field during winter 2010.



Lloydminster, Alberta – Lands

In addition to Section 18-48-1W4 Diaz has acquired a 45-80% interest in 3,040 gross acres of prospective lands in the Lloydminster area.

The following map shows the acquired lands with bypassed zones in comparison to Section 19-48-1W4.

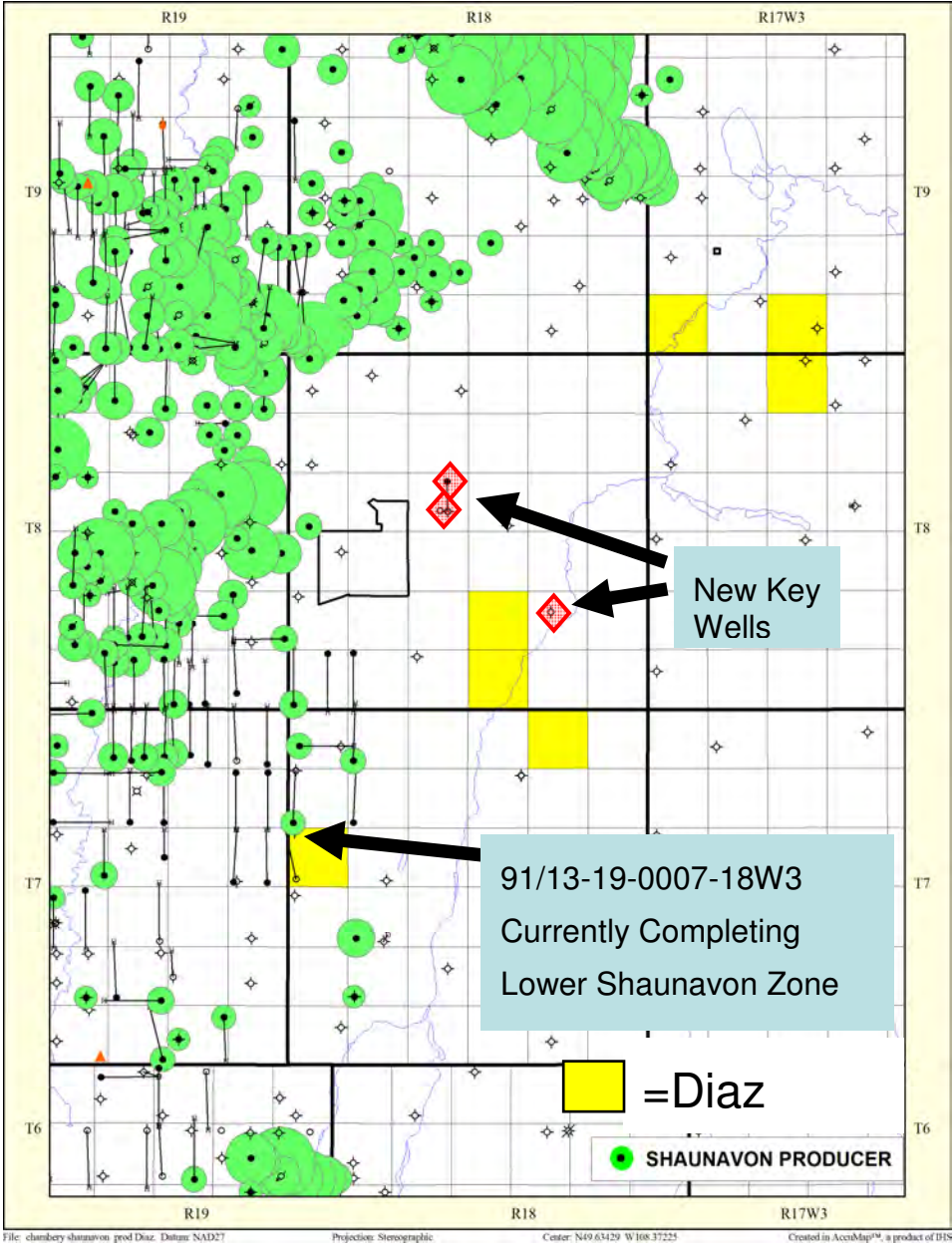


Saskatchewan Oil Plays

Diaz has acquired an interest in 18,262 gross acres (10,661 net acres) in Saskatchewan in the Birdbear, Shaunavon and other heavy oil development areas.

During the quarter, Diaz drilled a vertical Shaunavon oil well, 91/13-19-7-18W3, located in the Chambery field, Saskatchewan. Based on Diaz’s analysis, the open hole logs indicate potential oil pay in two zones. Diaz has a 45% interest in the section along with an 80% interest in six additional sections of land in the area. Diaz will be applying to the Saskatchewan Government to commingle the Upper Shaunavon and Lower Shaunavon zones and anticipates bringing the well on production before the end of the year.

The map below shows Diaz’s land position in its South Shaunavon oil play.



Financial

Revenue for the third quarter ended September 30, 2010 increased to \$1.6 million compared with \$1.2 million for Q3 2009. Cash flow from operations for the third quarter of 2010 increased to \$409,000 or nil per share compared with \$86,000 or nil per share for Q3 2009. Diaz reported a loss for the third quarter of \$1.1 million or (\$0.01) per share versus a loss of \$1.1 million or (\$0.01) per share in Q3 2009.

For the nine month period, revenue decreased to \$4.9 million compared with \$5.4 million for the prior year period. Cash flow from operations for the nine month period decreased to \$1.1 million or \$0.01 per share compared with \$1.5 million or \$0.02 per share for the prior year period. Diaz reported a loss for the nine month period of \$3.7 million or (\$0.04) per share versus a loss of \$11.4 million or (\$0.17) per share in the prior year period. The Company took an impairment write down during the prior year period of \$11.4 million.

Net capital expenditures for the third quarter of 2010 totalled \$776,000 compared with a net disposition of \$451,000 in the prior year quarter. Capital expenditures during the quarter were financed with cash flow from operations, working capital, and an increase in net debt.

Production

The Company's total production for Q3 2010 decreased 12% to 507 BOEd compared with the prior year Q3 2009 average of 578 BOEd. However, production for the last four quarters has been essentially held flat as production from new Lloydminster wells offsets declines.


Business Outlook

Diaz expects oil prices to hold above \$75 per barrel (WTI) during the last quarter of 2010 and into the 2011 year as industrial activity in North America slowly recovers.

Due to current high natural gas storage levels and significant volumes of gas being developed on North American shale gas projects there is still considerable uncertainty as to when natural gas prices will improve. To mitigate the uncertainty in natural gas prices, Diaz has put in place fixed gas price contracts for approximately two thirds of the Company's Q4 2010 gas production, at prices in excess of \$6.63 per Mcf.

The Company will continue to focus on its Lloydminster heavy oil development program and if successful, Diaz should exit 2010 with almost half of its production derived from oil.

On behalf of the Board,



R.W. Lamond, Chairman



D.K. Clark, Chief Operating Officer

November 12, 2010

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

November 12, 2010

The following discussion and analysis is management's assessment of Diaz's historical, financial and operating results. This review should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2010, and the audited financial statements for the year ended December 31, 2009. The reader should be aware that historical results are not necessarily indicative of future performance.

The interim report for the nine months ended September 30, 2010, has not been reviewed or audited by the Company's auditor.

Corporate Summary

The Corporate Summary included on page two of this report is included in the MD&A by reference.

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, Three Months Unaudited)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
Cash provided by (used for) Operating Activities:	\$ 1,652	\$ (432)	\$ 2,187	\$ 2,378
Adjusted for:				
Abandonments	(35)	24	(35)	33
Change in non-cash working capital	(1,208)	494	(1,025)	(889)
Cash flow from operations	\$ 409	\$ 86	\$ 1,127	\$ 1,522

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 affect 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 produced 68% of its production for Q3 2010 from natural gas wells. However, in Canada, Q3 2010 marks the first quarter in the Company's history where revenues from oil sales (\$824,000) exceeded revenues from gas sales (\$656,000). Diaz owns interests in producing properties in Alberta and Saskatchewan in Canada, and in Texas in the United States. Where meaningful, the following production information has been segmented for each of the Company's geographic areas of operations.

Oil & Gas Production	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	2010	2009	2010	2009
Gas - Canada				
Retlaw	484	761	520	818
Enchant	373	440	372	433
Big Bend	-	-	170	171
Therien	143	178	149	151
Jaslan	77	126	82	113
Carmangay	78	83	72	93
Leahurst	-	269	58	292
Other	390	502	433	609
Gas - Canada (Mcf)	1,545	2,359	1,856	2,680
Oil & Liquids - Canada				
Heavy Oil				
Lloydminster	130	21	89	24
Other Oil & NGLs				
Enchant	4	-	8	-
Red Earth	8	9	7	9
Harmattan	2	5	4	7
Hays	3	-	3	1
Other	11	46	8	52
Oil & Liquids - Canada (Bopd)	158	81	119	93
BOEd - Canada (6 Mcf = 1 Bbl)	416	474	428	540
Gas - U.S.				
Provident City	290	306	279	362
Hound Dog	89	114	93	141
Allen Ranch	25	63	27	72
Other	122	124	128	232
Gas - U.S. (Mcf)	526	607	527	807
Oil & Liquids - U.S.				
Provident City	3	3	2	3
Other	-	-	1	2
Oil & Liquids - U.S. (Bopd)	3	3	3	5
BOEd - U.S. (6 Mcf = 1 Bbl)	91	104	91	140
Gas - Company (Mcf)	2,071	2,966	2,383	3,487
Oil and Liquids - Company (Bopd)	161	84	122	98
BOEd - Company	507	578	519	680

Canadian oil production has increased 520% to 130 Bopd for Q3 2010 compared with 21 Bopd for the prior year period resulting from the Company's development program late in 2009 and the additional three wells added in 2010. Diaz drilled a water disposal well during October which will commence injection during Q4 and is also planning to drill two additional Lloydminster heavy oil wells late in 2010.

The Company's total production for the nine months ended September 30, 2010, decreased 24% to 519 BOEd compared with the prior year period average of 680 BOEd. In the U.S., production rates for the nine month period fell by 35% compared with average rates in the prior year period as the Company ceased development work in the U.S. and mature well production declines have continued. In Canada, the nine month average production rate decreased 21% as a result of declining production from mature wells and the shut-in of Leahurst and Big Bend for Q3 2010. A significant drop in production from the Retlaw field during the nine months compared with the prior year period was also a factor. Declines were

partially offset by the addition of three new Lloydminster wells in early June 2010. One or both of the Leahurst and Big Bend wells will be brought back on production during Q4 as they each require minor workovers.

Product Prices	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
Canada				
Natural Gas (\$/Mcf)	\$ 4.66	\$ 3.63	\$ 4.92	\$ 4.78
Heavy Oil	\$ 56.40	\$ 64.55	\$ 60.70	\$ 55.06
Other Oil & Liquids (\$/Bbl)	\$ 59.71	\$ 62.06	\$ 65.40	\$ 52.16
\$/BOE	\$ 39.05	\$ 28.83	\$ 38.51	\$ 32.84
U.S.				
Natural Gas (\$/Mcf)	\$ 4.07	\$ 3.23	\$ 4.32	\$ 4.23
Oil & Liquids (\$/Bbl)	\$ 75.14	\$ 73.29	\$ 77.37	\$ 57.20
\$/BOE	\$ 26.13	\$ 20.86	\$ 27.57	\$ 26.48
\$/BOE - Company	\$ 36.74	\$ 27.40	\$ 36.60	\$ 31.53

In Canada, average BOE prices for the third quarter were 35% higher than in Q3 2009. During the quarter, natural gas prices were higher by 28% and heavy oil prices were lower by 13% when compared with Q3 2009. Natural gas was primarily higher due to the Company's fixed price contract which is shown in more detail below. In the U.S., both natural gas prices and oil prices were higher during the quarter compared with Q3 2009.

For the nine month period, natural gas prices were slightly higher (2%-3%) in Canada and the U.S. while heavy oil prices increased 10%, and light oil and liquids increased by over 25%. Overall, average BOE prices for the nine month period for the Company were 16% higher than in the prior year nine month period.

Canada Natural Gas Prices Adjusted For Fixed Gas Contracts	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
Canada				
Gas price without contracts \$/Mcf	\$ 3.61	\$ 2.75	\$ 3.63	\$ 3.69
Fixed gas contract benefit (cost) \$/Mcf	\$ 1.05	\$ 0.88	\$ 1.29	\$ 1.09
Gas price with contracts \$/Mcf	\$ 4.66	\$ 3.63	\$ 4.92	\$ 4.78
Fixed gas contract benefit (cost) \$ '000	\$ 188	\$ 189	\$ 472	\$ 796

The Canadian natural gas price includes the effect of fixed gas contracts in the current and prior periods.

As detailed above, Diaz added \$188,000 to its revenue for the third quarter compared with \$189,000 added in Q3 2009 as a result of fixed gas contracts. For the ninth month period, Diaz added \$472,000 to its revenue compared with \$796,000 for the 2009 as a result of fixed gas contracts. Diaz has fixed price gas contracts that cover approximately 2/3 of its natural gas production for the balance of 2010.

Revenue from Oil and Gas Production (\$ Thousands)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Canada			
Natural Gas	\$ 656	\$ 782	\$ 2,491	\$ 3,501
Heavy Oil	667	124	1,478	354
Other Oil and Liquids	157	341	537	977
Total - Canada	1,480	1,247	4,506	4,832
U.S.				
Natural Gas	195	178	622	932
Oil and natural gas liquids	21	19	61	77
Total - U.S.	216	197	683	1,009
Total Production Revenue - Company	\$ 1,696	\$ 1,444	\$ 5,189	\$ 5,841

In Canada, for the third quarter of 2010, declines in average natural gas production resulted in natural gas revenue of \$656,000, a 16% decline from natural gas revenues reported in Q3 2009. This was offset by a 438% increase in heavy oil revenue to \$667,000 from \$124,000 in Q3 2009. The largest reduction in revenue for Q3 is in the oil and liquids category where revenue of \$157,000 was far less than the \$341,000 recorded in Q3 2009. The drop in oil and liquids revenue is directly attributable to the sale of the Carmangay and Parkman oil properties during 2009, while the increase in heavy oil revenue has resulted from additional wells drilled in Q4 2009 and during 2010, increasing production at the Company's Lloydminster field. Q3 2010 marks the first quarter in the Company's history where Canadian revenues from oil sales (\$824,000) exceeded revenues from gas sales (\$656,000).

Production declines in the U.S. were larger than in Canada during the quarter but were completely offset by stronger natural gas and oil prices compared with the prior year period than was realized in Canada.

For the nine month period, revenues in both the US and Canada were lower than the prior year period mainly due to reduced production rates of natural gas, oil and liquids. The reduction in revenue was partially offset by heavy oil production in Canada which also received increased prices over the prior year period.

Royalties (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Canada			
Crown	\$ 11	\$ 10	\$ 115	\$ 92
Freehold	19	88	24	270
Royalties	30	98	139	362
per BOE	\$ 0.75	\$ 2.29	\$ 1.18	\$ 2.47
Royalties as a percentage of revenue	1.9%	8.4%	3.0%	7.3%
U.S.				
Royalties	66	51	194	190
per BOE	\$ 7.45	\$ 5.39	\$ 7.85	\$ 4.98
Royalties as a percentage of revenue	27.7%	26.0%	28.0%	18.8%
Total Royalties - Company	\$ 96	\$ 149	\$ 333	\$ 552
per BOE	\$ 2.06	\$ 2.84	\$ 2.35	\$ 2.98

In Canada, freehold royalty expense decreased when compared with Q3 2009 as the Company did not produce its Leahurst well during the quarter which is on a freehold lease. Diaz anticipates royalty rates should average approximately 3% to 5% of Canadian revenue for 2010 on the assumption that natural gas prices will be in the \$3.00 to \$4.00 per Mcf range during Q4 2010. Diaz wells drilled in Alberta during the last two years have earned an Alberta Royalty Drilling Credit which can be used to reduce overall Alberta Royalty expenses. Diaz has sold approximately \$450,000 in drilling credits during the year and maintains a balance of \$57,000 in credits to apply against Alberta Crown Royalty expenses until April 1, 2011.

In the United States, royalties as a percentage of revenue have continued to be in the normal range for the properties. The prior year royalties included reductions for certain deep gas well royalty exemptions

that were not in place during Q1 or Q2 2010. Royalties are generally fixed rates in the U.S. and Diaz expects royalty rates to average 28% to 31% of U.S. revenue during Q4 2010.

Operating and Transportation Expense (\$ Thousands, except per BOE amount)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Canada	640	510	2,090
per BOE	16.89	11.71	17.84	15.27
U.S.	44	36	171	172
per BOE	5.31	3.67	6.90	4.50
Total Expense - Company	684	546	2,261	2,422
per BOE	14.82	10.27	15.93	13.05

In Canada and in the U.S., the third quarter operating costs per BOE were 44% higher than the comparable prior year period and total operating costs for Q3 2010 increased 26% to \$685,000 compared with \$546,000 in Q3 2009. For the nine month period, operating costs per BOE were 22% higher than the comparable prior year period but total operating costs decreased by 7% to \$2.3 million compared with \$2.4 million in the prior year period.

In Canada, operating costs on a BOE basis for the quarter increased from Q3 2009 resulting from increased water disposal costs at the Lloydminster field. The Company drilled a water disposal well in October and will commence injection once all government permits are received. This should help reduce the overall water disposal costs at the Lloydminster field. Also, in the prior year period, Q3 2009, the Company recovered \$164,000 in operating costs from partners in the Parkman property. This was a one time recovery. In the U.S., operating costs on a BOE basis for the quarter increased when compared with Q3 2009 as the fixed operating costs for the wells takes on an increasing percentage of the declining revenue stream.

Summary of Operating Netback (\$ Thousands, except per BOE amounts)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Natural Gas	\$ 851	\$ 960	\$ 3,113
Heavy Oil	667	124	1,478	354
Other Oil & Liquids	178	360	598	1,054
Total Gas, Oil & Liquids	1,696	\$ 1,444	\$ 5,189	\$ 5,841
Royalties	(96)	(149)	(333)	(552)
Operating expenses	(684)	(546)	(2,261)	(2,422)
Operating netback	\$ 916	\$ 749	\$ 2,595	\$ 2,867
\$/BOE				
Total Gas, Oil & Liquids	\$ 36.74	\$ 27.40	\$ 36.60	\$ 31.53
Royalties	(2.06)	(2.84)	(2.35)	(2.98)
Operating expenses	(14.82)	(10.27)	(15.93)	(13.05)
Operating netback	\$ 19.86	\$ 14.29	\$ 18.32	\$ 15.50

Operating netback's for the quarter were up 39% to \$19.86 per BOE when compared with Q3 2009, while the nine month period increased 18% compared with the prior year period. The increase was primarily from an increase in prices per BOE and a reduction of royalties per BOE partially offset by an increase in operating expenses per BOE.

Overhead (\$ Thousands, except per BOE amounts)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Gross expenses	\$ 886	\$ 735	\$ 2,579
Recovered from exploration joint venture *	(449)	(222)	(973)	(908)
Recovered from third parties	(36)	(24)	(100)	(65)
Capitalized	(105)	(185)	(653)	(906)
Net overhead	\$ 296	\$ 304	\$ 853	\$ 696
Per BOE	\$ 6.41	\$ 5.77	\$ 6.02	\$ 3.76

* The Company has a joint venture with Sharon Energy Ltd. and Tuscany Energy Ltd. whereby it participates in new oil and natural gas projects for a 45% working interest – Sharon 25%, Tuscany 30%. Diaz provides administrative, operating and exploration services for Sharon and Tuscany in exchange for payment of a portion of the related costs of Diaz.

Gross overhead costs for the nine month period ended September 30, 2010, remained steady at \$2.6 million while net overhead costs increased 23% as a reduction in capitalized overhead was partially offset by increased recoveries from joint venture and third parties.

Interest Expense (\$ Thousands, except per BOE and percentage amounts)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Interest expense	\$ 231	\$ 268	\$ 674
Debenture accretion and issue costs	77	70	227	210
Interest expense per BOE	\$ 6.65	\$ 6.42	\$ 6.35	\$ 5.10
Average interest rate on bank debt	5.4%	4.5%	4.8%	3.9%
Average bank debt	\$ 5,629	\$ 6,768	\$ 5,253	\$ 7,554
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

Interest expense for Q3 2010 and for the nine month period was 14% and 8% lower respectively than the associated prior year periods. Higher interest rates in Q3 2010 and for the nine month period partially offset lower average bank debt during the periods compared with the prior year periods.

Income Taxes (\$ Thousands)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Canada			
Current tax expense	\$ (9)	\$ 12	\$ (9)	\$ 17
Future tax expense (recovery)	-	(273)	-	(4,084)
Total - Canada	(9)	(261)	(9)	(4,067)
U.S.				
Current tax expense	18	13	27	16
Future tax expense (recovery)	(75)	(187)	(383)	(573)
Total - U.S.	(57)	(174)	(356)	(557)
Total - Company	\$ (66)	\$ (435)	\$ (365)	\$ (4,624)

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 2010. The Company has a future tax asset available which has not been included on the balance sheet due to the potential delay before the Company expects to utilize the asset. There are no future taxes payable.

In the United States, current taxes for Q3 2010 relate to an alternative minimum tax paid for the 2009 fiscal year. The Company was cash taxable in 2006 but due to increased capital spending between 2007

and 2009 did not incur current Federal tax. Diaz does not anticipate being taxable in 2010 as the remaining tax pools appear to be sufficient to offset any calculated 2010 taxable income.

Depletion, Depreciation & Accretion (\$ Thousands, except per BOE Amounts)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Canada			
Depletion and depreciation	\$ 946	\$ 928	\$ 2,886	\$ 3,547
ARO accretion	75	73	260	214
Total - Canada	\$ 1,021	\$ 1,001	\$ 3,146	\$ 3,761
per BOE	\$ 26.83	\$ 23.17	\$ 26.88	\$ 25.57
U.S.				
Depletion and depreciation	\$ 452	\$ 502	\$ 1,354	\$ 2,157
ARO accretion	1	1	4	4
Total - U.S.	\$ 453	\$ 503	\$ 1,358	\$ 2,161
per BOE	\$ 54.98	\$ 53.06	\$ 54.88	\$ 56.67
Total - Company	\$ 1,474	\$ 1,504	\$ 4,504	\$ 5,922
per BOE	\$ 31.87	\$ 28.55	\$ 31.77	\$ 31.97

For the nine month period, the Company's depletion, depreciation and accretion costs have decreased to \$31.77 per BOE compared with \$31.97 per BOE for the prior year period. Depletion expense is calculated based on the Company's proved reserves.

Capital Expenditures (\$ Thousands)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
	Land	\$ 334	\$ 99	\$ 683
Geological and geophysical	24	41	245	386
Drilling and completions	549	243	2,107	1,066
Equipment, facilities and pipelines	28	3	550	153
Total	\$ 935	\$ 386	\$ 3,585	\$ 2,139

For the nine month period, the Company drilled three wells and completed and equipped four wells, all at the Company's Lloydminster heavy oil field. Additionally, Diaz drilled a vertical well at its Chamberly field near Shaunavon, Saskatchewan, during Q3 2010. In the prior year period, the Company participated in the drilling of only one new well and several recompletions.

Quarterly Financial Information

(\$ Thousands, except production and per share amounts)	Three Months Ended							
	2010			2009				2008
	Sep 30	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Production (BOEd)	507	525	532	532	578	675	791	871
Price (\$/BOE)	\$ 36.74	\$ 35.05	\$ 37.98	\$ 34.87	\$ 27.40	\$ 29.98	\$ 35.93	\$ 48.06
Total revenue	1,629	1,614	1,690	1,568	1,225	1,932	2,248	3,389
Cash flow from operations per share (basic and diluted)	409 0.00	335 0.00	384 0.00	359 0.00	86 0.00	822 0.01	614 0.01	1,146 0.02
Cash provided by operating activities per share (basic and diluted)	1,652 0.00	(48) 0.00	583 0.00	400 0.00	(432) 0.00	1,007 0.01	1,816 0.03	573 0.01
Loss per share (basic and diluted)	(1,104) (0.01)	(1,112) (0.02)	(1,486) (0.02)	(2,912) (0.04)	(1,070) (0.02)	(619) (0.01)	(9,754) (0.15)	(3,561) (0.05)
Overhead	296	190	367	313	304	(55)	447	567
Net capital additions (dispositions)	776	771	1,692	(187)	(451)	(190)	836	2,074
Property, plant & equip. impairment	-	-	-	-	-	-	11,400	2,744
Total assets	34,722	37,004	36,876	36,657	37,725	39,826	43,264	56,761
Convertible debentures*	6,604	6,527	6,451	6,377	6,304	6,233	6,163	6,094
Net current debt	6,714	6,357	5,908	5,844	7,218	7,695	8,657	8,449

* Convertible debentures have a face value of \$7.1 million and mature on March 26, 2012. See Note 7, "Convertible Debentures", in the notes to the financial statements for the nine six months ended September 30, 2010.

Diaz's production rate peaked at 871 BOEd in Q4 2008 and has declined during the past eight quarters. Q4 2008 also had the highest average price per BOE. Since Q4 2008, production has dropped by approximately 42% combined with reduced prices per BOE, resulting in a significant reduction in cashflow over the eight quarters. Production and revenues during the last four quarters have remained relatively flat with a slight increase in revenue during the most recent quarter.

Liquidity and Capital Resources

Diaz completed the quarter ended September 30, 2010, with a net current debt of \$6.7 million compared with \$5.8 million at the beginning of the year.

In March 2010, Diaz completed an equity financing raising \$1.3 million.

On September 30, 2010, the Company had a \$6.5 million secured loan with a Canadian financial institution which was drawn to \$6.1 million (Q3 2009 - \$7.1 million).

As of November 12, 2010 Diaz had 85,883,252 common shares issued and outstanding.

Normal Course Issuer Bid ("NCIB")

During the nine months ended September 30, 2010, Diaz repurchased 113,000 Common Shares (2009 – nil) at an average price of \$0.12 per share.

Diaz is authorized to repurchase up to 760,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid, which expires on November 30, 2010. 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.

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 office lease for a minimum payment of \$43,000 in 2010, \$152,000 in 2011 and 2012, and \$127,000 in 2013.

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 September 30, 2010, was \$4.8 million (2009 – \$5.1 million).

Off Balance Sheet Arrangements

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

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 November 10, 2010, Humboldt and its directors and officers owned approximately:

- 37% of Diaz common shares,
- 22% of Paris common shares,
- 29% of Sharon common shares, and
- 44% of Tuscany common shares.

The Company has a joint venture with Sharon Energy Ltd. and Tuscany Energy Ltd. whereby it participates in new oil and natural gas projects for a 45% working interest – Sharon 25%, Tuscany 30%. Diaz provides administrative, operating and exploration services for Sharon and Tuscany in exchange for payment of a portion of the related costs of Diaz. Charges for these services to Tuscany and Sharon are shown below.

At September 30, 2010, Sharon owed Diaz \$97,000 (Q3 2009 – Diaz owed \$4,000) and Tuscany owed Diaz \$201,000 (Q3 2009 – \$2,000) through the normal course of business.

For the nine months ended September 30, 2010 and 2009, Diaz recovered the following amounts related to certain overhead services from:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Sharon	\$250,000	\$633,000
Humboldt	\$249,000	\$216,000
Tuscany	\$388,000	\$52,000
Paris	\$19,000	\$7,000

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 Consolidated Financial Statements. 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.

Proved Oil and Gas Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

The estimated quantities of proved crude oil, natural gas liquids including condensate and natural gas that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made.

Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests.

The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial results and position of the Company is described under the heading "Full Cost Accounting for Oil and Gas Activities."

Full Cost Accounting for Oil and Gas Activities

Depletion Expense

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

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

Withheld Costs

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

Impairment of Long-Lived Assets

The Company is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost center is not recoverable by the future undiscounted cash flows of proved reserves. 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. Fair value is the aggregate of cash flows from proved plus probable reserves discounted at 5% per year.

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 2009, 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.

In July 2009, the International Accounting Standards Board issued Additional Exemptions for First-time Adopters (Amendments to IFRS-1) which gives the option to companies using the full cost method of accounting to carry forward the amount determined under Canadian GAAP as the deemed cost under IFRS. This exemption will significantly reduce property, plant and equipment adjustments which would have resulted from the retroactive adoption of IFRS.

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 two and three while preparing its opening January 1, 2010, IFRS balances for review by the Company’s auditor during Q4 2010. To date, no material differences have been identified in the Company’s balance sheet as at January 1, 2010, between Canadian GAAP and IFRS. The Company has been collecting dual reporting data during the year as its accounting systems were modified in the prior year to support IFRS data requirements.

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 is 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.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading,” “available-for-sale,” “held-to-maturity,” “loans and receivables” or “other financial liabilities” as defined by the standard.

Cash and cash equivalents are designated as “held-for-trading” and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as “loans and receivables” and are carried at cost. Accounts payable are designated as “other financial liabilities” and are carried at cost. Long-term debt, which includes the convertible debenture, is designated as “other financial liabilities” and carried at amortized cost using the effective interest method. The financing costs associated with the Company’s \$7.085 million private placement of unsecured convertible debentures on March 26, 2007, are included in the amortized cost of the debt. These costs are charged to interest expense using the effective interest rate method over the term of the debt, which matures on March 26, 2012.

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

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

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable and GST receivable, to a maximum of the carrying value of the aforementioned items at the end of the period. 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 \$457,000 which represents accounts receivable balances in excess of 90 days. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

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, 2010, as follows:

(\$ Thousands)	Favourable 25% Change	Unfavourable 25% Change
Interest expense	\$ (169)	\$ 169

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. The timing of cash outflows relating to financial liabilities are outlined in the table below:

(\$ Thousands)	< 1 year	years 2 & 3	> 3 years
Accounts payable and accrued liabilities	2,795	-	-
Bank loan	6,112	-	-
Convertible debentures plus interest	620	7,395	-

At September 30, 2010 the Company has met all the obligations associated with its financial liabilities. The majority of the Company's accounts payable are current. The bank loan is a demand loan and is classified as a current liability of less than one year. Convertible debentures are payable on March 26, 2012.

Foreign currency exchange risk

The Company is exposed to fluctuations in foreign currency exchange rates as the Company has a U.S. subsidiary with a functional currency of 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, 2010, can be summarized as follows:

(\$ Thousands)	Balance Sheet	Canada	USA
	Total	Cdn \$ Equivalent	
Cash and cash equivalents	347	9	338
Accounts receivable	1,707	1,622	85
Accounts payable	(2,795)	(2,614)	(181)
Total	(741)	(983)	242

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, 2010, as follows:

(\$ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Natural gas price	\$ 311	\$ (311)
Crude oil price	\$ 208	\$ (208)

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 September 30, 2010.

As at September 30, 2010, 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 September 30, 2010.

Outlook

Diaz expects oil prices to hold above \$75 per barrel (WTI) during the last quarter of 2010 and into the 2011 year as industrial activity in North America slowly recovers.

Due to current high natural gas storage levels and significant volumes of gas being developed on North American shale gas projects there is still considerable uncertainty as to when natural gas prices will improve. To mitigate the uncertainty in natural gas prices, Diaz has put in place fixed gas price contracts for approximately two thirds of the Company's Q4 2010 gas production, at prices in excess of \$6.63 per Mcf.

The Company will continue to focus on its Lloydminster heavy oil development program and if successful, Diaz should exit 2010 with almost half of its production derived from oil.

Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheet

As at (\$ Thousands, unaudited)	Sept 30 2010	December 31 2009
ASSETS		
Current Assets		
Cash	\$ 347	\$ 104
Accounts receivable	1,707	2,400
Income tax receivable	(3)	329
Prepaid expense	142	229
	2,193	3,062
Property, plant and equipment (Note 4)	106,818	103,907
Accumulated depletion and depreciation	(74,289)	(70,312)
	32,529	33,595
Total Assets	\$ 34,722	\$ 36,657
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,795	\$ 4,508
Bank debt (Note 3)	6,112	4,398
	8,907	8,906
Other Liabilities		
Convertible debentures (Note 7)	6,604	6,377
Future income tax liability	1,519	1,942
Asset retirement obligation (Note 8)	3,717	3,381
Total Other Liabilities	11,840	11,700
	20,747	20,606
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	21,829	20,614
Warrants	331	-
Other equity (Note 7)	847	847
Contributed surplus (Note 5)	1,950	1,759
Accumulated other comprehensive loss	(418)	(307)
Deficit	(10,564)	(6,862)
	13,975	16,051
Total Liabilities and Shareholders' Equity	\$ 34,722	\$ 36,657

See Note 9, Commitments

Approved by the Board:

(Signed) "R.W. Lamond" Director

(Signed) "C.A. Teare" Director

Consolidated Statement of Operations & Deficit

(\$ Thousands, except per share amounts, unaudited)	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	2010	2009	2010	2009
Revenue				
Production	\$ 1,696	\$ 1,444	\$ 5,189	\$ 5,841
Royalties	(96)	(149)	(333)	(552)
Interest and other income	29	(70)	77	116
	1,629	1,225	4,933	5,405
Expenses				
Operating and transportation	684	546	2,261	2,422
Overhead	296	304	853	696
Stock based compensation including warrants	37	38	481	79
Interest expense	308	338	901	945
Depletion, depreciation and accretion	1,474	1,504	4,504	5,922
Property, plant & equipment impairment (Note 4)	-	-	-	11,408
	2,799	2,730	9,000	21,472
Earnings (loss) before income tax	(1,170)	(1,505)	(4,067)	(16,067)
Income tax				
Current tax expense	9	25	18	33
Future tax recovery	(75)	(460)	(383)	(4,657)
Total income tax	(66)	(435)	(365)	(4,624)
Net loss	(1,104)	(1,070)	(3,702)	(11,443)
Deficit, beginning of period	(9,460)	(2,880)	(6,862)	7,493
Deficit, end of period	\$ (10,564)	\$ (3,950)	\$ (10,564)	\$ (3,950)
Loss per share, basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.17)

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss

(\$ Thousands, except per share amounts, unaudited)	Three Months Ended		Nine Months Ended	
	Sept 30 2010	2009	Sept 30 2010	2009
Net loss	\$ (1,104)	\$ (1,070)	\$ (3,702)	\$ (11,443)
Other comprehensive income (loss)				
Unrealized gain (loss) on translation of consolidated financial statements into reporting currency	137	(598)	(111)	(197)
Comprehensive loss	\$ (967)	\$ (1,668)	\$ (3,813)	\$ (11,640)
Accumulated other comprehensive income (loss)				
Beginning of period	\$ (248)	\$ 401	\$ (307)	\$ -
Other comprehensive loss	(170)	(598)	(111)	(197)
Accumulated other comprehensive loss	\$ (418)	\$ (197)	\$ (418)	\$ (197)

Consolidated Statement of Cash Flows

(\$ Thousands, unaudited)	Three Months Ended		Nine Months Ended	
	Sept 30		Sept 30	
	2010	2009	2010	2009
Cash provided by (used for):				
Operating Activities				
Loss for the period	\$ (1,104)	\$ (1,070)	\$ (3,702)	\$ (11,443)
Non-cash items:				
Interest - amortization of debenture issue costs	77	71	227	210
Depreciation, depletion and accretion	1,474	1,504	4,504	5,922
Property, plant & equipment impairment	-	-	-	11,408
Stock based compensation	37	38	481	79
Future tax recovery	(75)	(460)	(383)	(4,657)
	409	86	1,127	1,522
Abandonments	35	(24)	35	(33)
Change in non-cash working capital	1,208	(494)	1,025	889
	1,652	(432)	2,187	2,378
Investing Activities				
Property, plant & equipment - additions	(935)	(386)	(3,585)	(2,139)
Property, plant & equipment - dispositions	159	837	346	1,944
Change in non-cash working capital	(635)	624	(1,625)	(1,528)
	(1,411)	1,075	(4,864)	(1,723)
Financing Activities				
Increase (decrease) in bank debt	87	(563)	1,714	(1,036)
Common Shares				
Issued for cash	-	-	1,416	-
Share issue costs	-	-	(187)	-
Repurchased for cancellation	(10)	-	(14)	-
	77	(563)	2,929	(1,036)
Increase (decrease) in cash	318	80	252	(381)
Net effect of foreign exchange translations on cash flows	(10)	(37)	(9)	(64)
Cash, beginning of period	39	56	104	544
Cash, end of period	\$ 347	\$ 99	\$ 347	\$ 99
Supplementary information regarding cash payments:				
Interest paid during the period	\$ 114	\$ 113	\$ 558	\$ 581
Taxes paid during the period	\$ 16	\$ 25	\$ 25	\$ 33

Notes to the Consolidated Financial Statements (Unaudited)

For the nine months ended September 30, 2010

1. Accounting Policies

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

The 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.

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, 2009.

Property, Plant and Equipment

The Company follows the full cost method of accounting for petroleum and natural gas operations. Under this method, all costs of exploration for and development of petroleum and natural gas reserves are capitalized by cost centre. A separate cost centre is established for each country in which the Company operates, presently Canada and the United States. Costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to exploration activities.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss, except where such a disposal would alter the depletion and depreciation rate by 20% or more.

Depletion and depreciation of capitalized costs are provided by using the unit of production method based on the Company's total estimated gross proved reserves, as determined by independent engineers. Natural gas reserves and production are converted to equivalent barrels of oil based on the relevant energy content. In determining the depletion base, the Company includes future costs to be incurred in developing proved reserves and excludes the costs of unproved land.

Depreciation is provided on furniture and fixtures at annual rates of 20%, on a declining balance basis.

An impairment loss is recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of:

- the fair value of proved and probable reserves; and
- the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

In determining the depletion and depreciation provisions for crude oil and natural gas assets, the Company includes any excess of the net book value of those crude oil and natural gas assets over the fair value.

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.

Cash and Cash Equivalents

Cash includes cash and cash-like short-term investments that can be liquidated into cash on less than 90-days notice.

Joint Ventures

A significant portion of the Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

Share Based Compensation Plan

The Company has a stock based compensation plan, which is described in Note 5. The Company has adopted the fair value method for accounting for stock based compensation whereby the fair value of the option granted is estimated on the date of the grant using the Black-Scholes option pricing model. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings over the vesting period of the options.

Foreign Currency Translation

Foreign currency balances, including those of self sustaining foreign subsidiaries, are expressed in Canadian dollars on the following basis:

- Monetary assets and liabilities – at the year end rate of exchange;
- Other assets and liabilities – at the year end rate of exchange; and
- Revenues and expenses – at average rates of exchange for the period.

Flow-Through Shares

Share capital is reduced by the future tax effect of renouncing income tax cost to the purchaser of flow-through shares when the tax pools are renounced. The tax effect is calculated using the expected rate of tax.

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids owned by the Company is recognized when title passes from the Company to its customers and collectability is reasonably assured.

Income Tax

Income taxes are recorded using the liability method of accounting. Future income tax assets and liabilities are recognized for temporary differences between the income tax and accounting basis of assets and liabilities and measured using the substantively enacted tax rates expected to be in effect when the timing differences are estimated to reverse. Changes in income tax rates that are substantively enacted are reflected in the accumulated future income tax balances in the period the change occurs.

Use of Accounting Estimates

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for asset retirement obligation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The Black-Scholes option pricing model is used to estimate stock option values based on estimates of the current risk free interest rate, expected life of the options and expected volatility of the underlying common share price. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Financial 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.

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.

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.

2. Change in Accounting Policies

Business Combinations

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601-Consolidated Financial Statements, and 1602 – Non Controlling Interests. Section 1582 replaces Section 1581 – Business Combinations and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Sections 1601 and 1602 replace 1600 – Consolidated Financial Statements. Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective April 1, 2011. Early adoption of the Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company did not adopt this standard early.

Emerging Issues Committee (“EIC”) EIC 173

The Emerging Issues Committee (“EIC”) issued EIC 173 – Credit risk and the fair value of financial assets and financial liabilities on January 20, 2009. This abstract provides further guidance on the determination of the fair value of financial assets and financial liabilities under Section 3855. EIC 173 concluded that when determining the fair value of financial assets and financial liabilities, the entity should consider its own credit risk as well as the credit risk of the counterparty. This abstract should be applied retrospectively, without restatement of prior periods, to all financial assets and liabilities measured at fair value in interim and annual financial statements for the periods ending on or after January 20, 2009. Adoption of this abstract did not have a material impact.

3. Bank Debt

All credit facilities that are revolving in nature must be disclosed as liabilities. Diaz utilizes a secured revolving production loan that is payable on demand and is subject to an annual review and, therefore, is considered "current" for disclosure purposes and has been disclosed under current liabilities as bank debt.

At September 30, 2010, the Company had an \$6.5 million production loan with a Canadian financial institution. At September 30, 2010, \$6,112,000 of the loan was outstanding (December 31, 2009 - \$4,398,000). The Company failed to satisfy a loan covenant at the end of the quarter requiring current assets to exceed current liabilities. The financial institution has waived the covenant requirement for the quarter but has increased the interest rate on the loan by 50 basis points until the covenant is satisfied.

The loan is in three distinct parts as follows:

Part 1, revolving:	\$5.35 million,	prime plus 2.50%;
Part 2, revolving:	\$0.65 million,	prime plus 4.00%;
Part 3, non-revolving	\$0.50 million,	prime plus 5.50%

4. Property, Plant and Equipment

At September 30, 2010, unproved property costs of \$605,000 were excluded from the depletable cost base (2009 - \$581,000). 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, 2010, administrative expenses and stock options of \$694,000 related to exploration and development activities were capitalized as part of property, plant and equipment (2009 - \$938,000).

For the calculation of depletion expense, estimated future costs to develop the proved reserves were added to property, plant and equipment. At September 30, 2010, future costs were \$6,629,000 (2009 - \$6,539,000).

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 2012 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)
2010	4.21	3.71	81.19	79.36
2011	4.72	3.99	85.39	83.35
2012	5.35	4.60	92.37	89.98
2013	5.35	4.60	92.37	89.98
2014	5.35	4.60	92.37	89.98
2015	5.35	4.60	92.37	89.98

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. No impairment was required in Q3 2010 (Q3 2009 - \$nil).

5. Share Capital

Authorized

Unlimited number of Common Shares, no stated par value.

Voting rights

Common shares carry voting rights of one vote per share.

Issued

	Number of Shares	Amount (thousands)
Common Shares		
Balance, December 31, 2009	76,576,752	\$ 20,614
Share issue costs (net of tax)		(187)
Issued for cash	9,439,500	1,416
Repurchased for cancellation	(113,000)	(14)
Balance, Sept 30, 2010	85,903,252	\$ 21,829

	Amount (thousands)
Contributed Surplus	
Balance, December 31, 2009	\$ 1,759
Option compensation for the period	191
Balance, Sept 30, 2010	\$ 1,950

In Q1 2010, the Company completed a financing having raised net \$1.26 million by way of a brokered private placement of 9,439,500 units at \$0.15 per unit. Each unit was comprised of one common share and one half of a purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Corporation for \$0.20 until the warrants expire on March 12, 2012. The agents received 655,160 agent's options. Each agent option entitles the holder to purchase one unit for \$0.156 until March 12, 2012 or March 30, 2012 depending on the tranche of the financing.

Normal Course Issuer Bid ("NCIB")

During nine months ended September 30, 2010, Diaz repurchased 113,000 Common Shares (2009 –nil) at an average price of \$0.12 per share.

Diaz is authorized to repurchase up to 760,000 Common Shares through the facilities of the Toronto Stock Exchange pursuant to a normal course issuer bid, which expires on November 30, 2010. 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, 2010, 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 into 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 twelve month periods as they were all out-of-the-money compared with the average stock prices during those periods.

Shares Outstanding	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
Weighted average shares outstanding	85,936,882	67,177,752	83,425,945	67,177,752
Dilutive effect of stock options	-	-	-	-
Diluted weighted average shares outstanding	85,936,882	67,177,752	83,425,945	67,177,752

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, 2010, there are a total of 6,520,000 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.2320 per share. A total of 4,094,974 options with a weighted average exercise price of \$0.2632 are exercisable at September 30, 2010.

Fixed Options	Sept 30, 2010 Weighted Average		December 31, 2009 Weighted Average	
	Shares	Exercise Price	Shares	Exercise Price
Outstanding, beginning of period	7,635,000	\$ 0.3260	4,857,500	\$ 0.4146
Granted	560,000	\$ 0.1200	3,077,500	\$ 0.1900
Exercised	-	\$ -	-	\$ -
Expired	(1,675,000)	\$ 0.3460	-	\$ -
Cancelled	-	\$ -	(300,000)	\$ 0.3650
Outstanding, end of period	6,520,000	\$ 0.2320	7,635,000	\$ 0.3260
Options exercisable, end of period	4,094,974	\$ 0.2632	4,825,802	\$ 0.3958

Exercise Price	Outstanding September 30, 2010	Weighted Average Remaining Life (years)	Exercisable September 30, 2010
\$0.00 - \$0.24	3,637,500	4.3172	1,212,474
\$0.25 - \$0.49	2,682,500	2.4954	2,682,500
\$0.75 - \$0.99	200,000	0.8712	200,000
	6,520,000	3.3880	4,094,974

Warrants

Warrants issued during the period relate to the equity financing concluded on March 31, 2010. Each warrant entitles the holder to purchase one common share of the Corporation for \$0.20 until the warrant expires on March 12, 2012. Also issued during the financing were 655,160 agent's options. Each agent option entitles the holder to purchase one unit for \$0.156 until March 12, 2012 or March 30, 2012 depending on the tranche of the financing. Each unit contains one common share and one half of a purchase warrant on the same terms as the other warrants issued in the financing.

Warrants	Sept 30, 2010		December 31, 2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	-	\$ -	-	\$ -
Granted	5,374,910	\$ 0.1946	-	\$ -
Exercised	-	\$ -	-	\$ -
Expired	-	\$ -	-	\$ -
Cancelled	-	\$ -	-	\$ -
Outstanding, end of period	5,374,910	\$ 0.1946	-	\$ -
Options exercisable, end of period	5,374,910	\$ 0.1946	-	\$ -

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 and warrants granted to employees, directors and consultants. The impact on compensation costs of using the fair value method increased compensation costs for the first nine months of 2010 by \$481,000 (2009 - \$79,000).

The fair value of each option or warrant 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	Weighted Average 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
2009	2.12	4.5	0.70	0.1072
2010	1.19	4.5	0.92	0.0723

6. Capital Disclosures

Diaz uses the term cash flow from operations, annualized cashflow and net debt in its analysis below. Cash flow from operations 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, Three Months Unaudited)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
Cash provided by (used for) Operating Activities:	\$ 1,652	\$ (432)	\$ 2,187	\$ 2,378
Adjusted for:				
Abandonments	(35)	24	(35)	33
Change in non-cash working capital	(1,208)	494	(1,025)	(889)
Cash flow from operations	\$ 409	\$ 86	\$ 1,127	\$ 1,522

The Company also uses annualized cash flow from operations which equals four times the quarterly cash flow from operations. In addition, the Company presents "Net current debt", which is calculated as the aggregate of current assets and current liabilities.

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 with the goal of maintaining its net current debt repayability ratio to less than twenty-four months. 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	
	2010	Sept 30 2009
Current liabilities	\$ 8,907	\$ 9,561
Less Current assets	2,193	2,343
Net current debt	6,714	7,218
Convertible Debentures	6,604	6,304
Net debt	13,318	13,522
Annualized Cashflow from Operations	1,636	344
Months estimated to repay net current debt	49.25	251.79
Months estimated to repay net debt	97.69	471.70

The decrease in net current debt repayability for the quarter ended September 30, 2010, compared with Q3 2009 resulted from an increase in annualized cashflow between the periods. However, the resulting 2010 ratio is unacceptably high and Management is taking steps to manage the debt side of the equation while revenue and cashflow is expected to increase as the Company's Lloydminster heavy oil field is developed.

7. Convertible Debentures

In March 2007, the Company issued unsecured subordinated convertible debentures for gross proceeds of \$7,085,000. The debentures are compound financial instruments and as such have been recorded as a liability and as equity. The residual valuation method was used to determine the equity portion of the debentures. Under this approach, the liability component was valued first, and the difference between the proceeds of the debentures and the fair value of the liability was assigned to the equity component. The present value of the liability was calculated using a discount rate of 12% which approximated the interest rate that would have been applicable to non-convertible debt of the Company at the time the debentures were issued.

(\$ Thousands)	Nine Months Ended		Year Ended
	2010	Sept 30 2010	December 31 2009
Liability component of debenture before adjustments		6,377	6,094
Adjustments - expensed to interest			
Accretion of liability		138	166
Issue costs		89	117
Liability component of debenture	\$	6,604	\$ 6,377

During 2007, 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 year term with a resulting charge to interest expense.

The debentures will mature on March 26, 2012, unless earlier redeemed or converted. The debentures earn interest at 8.75% per year, paid semi-annually. 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.

8. *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		Year Ended
	Sept 30	December 31	December 31
	2010	2009	2009
Asset Retirement Obligation, beginning of period	\$ 3,381	\$ 3,323	
Liabilities incurred	73	35	
Liabilities settled	-	(43)	
Increase for change in estimates	40	-	
ARO reduction for property sales	-	(209)	
Accretion expense	223	285	
Foreign exchange difference	-	(10)	
Asset Retirement Obligation, end of period	\$ 3,717	\$ 3,381	

The total undiscounted amount of estimated cash flows required to settle the obligation is \$4,767,000 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 2011 and 2016.

9. Commitments

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

(\$ Thousands)	Amount
Nine Months Ended Sept 30	(Thousands)
2010	43
2011	152
2012	152
2013	127

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

Fixed Price Volume	Fixed Price (\$/Mcf)	Time Period for Contract
950 Mcfd	5.70	Oct 1, 2010 - Oct 31, 2010
950 Mcfd	6.63	Nov 1, 2010 - Mar 31, 2011

10. Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash is classified as held-for-trading and is measured at fair value which equals the carrying value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and bank debt are classified as other financial liabilities, which are measured at amortized cost.

The convertible debentures are classified as other financial liabilities. Upon issuance, the convertible debentures were classified into equity and financial liability components on the balance sheet at their fair value. The financial liability, net of issuance costs, is accreted, which is included within interest expense over the maturity of the debentures using the effective interest rate method.

The transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are expensed immediately.

The estimated fair values of the financial instruments have been determined based on the Company's assessment of available market information. These estimates may not necessarily be indicative of the amounts that could be realized or settled in a market transaction. The fair values of financial instruments, other than convertible debentures, are equal to their book amounts due to the short-term maturity of these instruments.

The fair value of the bank loan approximates its book value as it is at a market rate of interest. The fair value of the convertible debentures has been calculated based on the lower of trading value and the present value of future cash flows plus the conversion option associated with the convertible debentures.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. The Company is exposed to credit risk on its accounts receivable and GST receivable, to a maximum of the carrying value of the aforementioned items at the end of the period. 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

\$457,000 which represents accounts receivable balances in excess of 90 days. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly there has been no allowance for doubtful accounts recorded.

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, 2010, as follows:

(\$ Thousands)	Favourable 25% Change	Unfavourable 25% Change
Interest expense	\$ (169)	\$ 169

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. The timing of cash outflows relating to financial liabilities are outlined in the table below:

(\$ Thousands)	< 1 year	years 2 & 3	> 3 years
Accounts payable and accrued liabilities	2,795	-	-
Bank loan	6,112	-	-
Convertible debentures plus interest	620	7,395	-

At September 30, 2010 the Company has met all the obligations associated with its financial liabilities. The majority of the Company's accounts payable are current. The bank loan is a revolving production loan and is classified as a current liability. Convertible debentures are payable on March 26, 2012.

Foreign currency exchange risk

The Company is exposed to fluctuations in foreign currency exchange rates as the Company has a U.S. subsidiary with a functional currency of 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, 2010, can be summarized as follows:

(\$ Thousands)	Balance Sheet	Canada	USA
	Total	Cdn \$ Equivalent	
Cash and cash equivalents	347	9	338
Accounts receivable	1,707	1,622	85
Accounts payable	(2,795)	(2,614)	(181)
Total	(741)	(983)	242

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, 2010, as follows:

(\$ Thousands)	Favourable 10% Change	Unfavourable 10% Change
Natural gas price	\$ 311	\$ (311)
Crude oil price	\$ 208	\$ (208)

11. 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 November 10, 2010, Humboldt and its directors and officers owned approximately:

- 37% of Diaz common shares,
- 22% of Paris common shares,
- 29% of Sharon common shares, and
- 44% of Tuscany common shares.

The Company has a joint venture with Sharon Energy Ltd. and Tuscany Energy Ltd. whereby it participates in new oil and natural gas projects for a 45% working interest – Sharon 25%, Tuscany 30%. Diaz provides administrative, operating and exploration services for Sharon and Tuscany in exchange for payment of a portion of the related costs of Diaz. Charges for these services to Tuscany and Sharon are shown below.

At September 30, 2010, Sharon owed Diaz \$97,000 (Q3 2009 – Diaz owed \$4,000) and Tuscany owed Diaz \$201,000 (Q3 2009 – \$2,000) through the normal course of business.

For the nine months ended September 30, 2010 and 2009, Diaz recovered the following amounts related to certain overhead services from:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Sharon	\$250,000	\$633,000
Humboldt	\$249,000	\$216,000
Tuscany	\$388,000	\$52,000
Paris	\$19,000	\$7,000

12. 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, Six Months Unaudited)	Three Months Ended		Nine Months Ended	
	Sept 30 2010	2009	Sept 30 2010	2009
Revenue (net)				
Canada	\$ 1,430	\$ 1,078	\$ 4,395	\$ 4,585
United States	199	147	538	820
	\$ 1,629	\$ 1,225	\$ 4,933	\$ 5,405
Overhead (net)				
Canada	\$ 227	\$ 256	\$ 676	\$ 532
United States	69	48	177	164
	\$ 296	\$ 304	\$ 853	\$ 696
Interest Expense				
Canada	\$ 308	\$ 338	\$ 901	\$ 945
United States	-	-	-	-
	\$ 308	\$ 338	\$ 901	\$ 945
Current Taxes				
Canada	\$ (9)	\$ 12	\$ (9)	\$ 17
United States	18	13	27	16
	\$ 9	\$ 25	\$ 18	\$ 33
Cash Flow from Operations				
Canada	\$ 342	\$ 26	\$ 964	\$ 1,024
United States	67	60	163	498
	\$ 409	\$ 86	\$ 1,127	\$ 1,522
Depletion, Depreciation & Accretion				
Canada	\$ 1,017	\$ 1,002	\$ 3,145	\$ 3,762
United States	457	502	1,359	2,160
	\$ 1,474	\$ 1,504	\$ 4,504	\$ 5,922
Net Income (Loss)				
Canada	\$ (789)	\$ (814)	\$ (2,888)	\$ (10,354)
United States	(315)	(256)	(814)	(1,089)
	\$ (1,104)	\$ (1,070)	\$ (3,702)	\$ (11,443)
Additions to Property, Plant & Equipment				
Canada	\$ 895	\$ 231	\$ 3,513	\$ 1,579
United States	40	155	72	560
	\$ 935	\$ 386	\$ 3,585	\$ 2,139
Dispositions of Property, Plant & Equipment				
Canada	\$ 159	\$ 50	\$ 346	\$ 1,000
United States	-	787	-	944
	\$ 159	\$ 837	\$ 346	\$ 1,944
Property, Plant & Equipment Impairment				
Canada	\$ -	\$ -	\$ -	\$ 11,408
United States	-	-	-	-
	\$ -	\$ -	\$ -	\$ 11,408
Identifiable Assets, Net				
Canada	\$ 27,543	\$ 26,910	\$ 27,543	\$ 26,910
United States	7,179	10,815	7,179	10,815
	\$ 34,722	\$ 37,725	\$ 34,722	\$ 37,725

CORPORATE INFORMATION

Directors

Robert W. Lamond
Calgary, Alberta

Charles A. Teare
Calgary, Alberta

Donald K. Clark
Calgary, Alberta

Raj Agrawal ⁽¹⁾
Calgary, Alberta

John G.F. McLeod ⁽²⁾
Okotoks, Alberta

Robert L. McPherson ⁽³⁾
Calgary, Alberta

Roger Hume ⁽¹⁾
Kelowna, British Columbia

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

⁽³⁾ Member of the Corporate Governance
Committee

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

Officers

R.W. Lamond
President, Chairman of the Board & CEO

D.K. Clark
Vice President, Operations & COO

B.R. Perry
Chief Financial Officer

C.A. Teare
Executive Vice President

C.S. Cohen
Corporate Secretary

R.D. Arsenault
Controller

Subsidiaries

Diaz Resources, Inc.
Orbit Oil & Gas Inc.

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: DZR

Diaz Resources Ltd.

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



Diaz Resources Ltd.
1800, 633-6 Ave SW
Calgary, Alberta T2P 2Y5