



# DIAZ RESOURCES LTD.

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The following is for immediate release in Canada, Friday, November 12, 2004.

## **DIAZ REPORTS 51% INCREASE IN CASH FLOW FOR THE FIRST NINE MONTHS OF 2004 AND INITIATES STRATEGIC REVIEW PROCESS**

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### ***Operating Results***

Diaz today reported that its financial and operating results for the nine months ended September 30, 2004 were significantly improved from one year ago. Production volumes rose by 35% to average 1,162 BOEd compared with 862 BOEd for 2003. Diaz's production for the third quarter increased to average 1,191 BOEd and is estimated to average 1,300 BOEd for the fourth quarter of 2004.

Approximately 90% of Diaz's production is natural gas with the balance being comprised of medium grade oil and natural gas liquids.

Revenue for the nine months ended September 30, 2004 totaled \$10.6 million compared with \$7.4 million one year earlier.

Cash flow for the period increased by 51% to \$6.7 million, or \$0.12 per share compared with \$4.4 million, or \$0.10 per share in 2003. Diaz reported earnings for the nine months ended September 30, 2004 of \$1.0 million, or \$0.02 per share compared with \$1.9 million, or \$0.04 per share reported in 2003.

Capital expenditures totaled \$7.6 million compared with \$4.9 million in 2003. Capital expenditures were financed from cash flow and from an increase of \$0.9 million in the Company's net debt. Diaz closed the third quarter of 2004 with net debt of \$7.6 million and debt repayability from annualized cash flow from operations was reduced to 0.9 times.

### ***Strategic Review Process***

Diaz also advises that as part of an ongoing review of business and strategic opportunities available to the Company, the Board of Directors has authorized Management to examine strategic and corporate restructuring alternatives that may be beneficial to Diaz shareholders. No decision on any particular alternative has been reached to-date and there can be no assurance that the Board of Directors will proceed with any alternative once identified.

The strategic alternatives to be considered will include, but will not necessarily be limited to: maintaining the status quo; continuing as an independent oil and gas company with changes to management; merging with another company or the sale of the Company for cash or shares.

Any strategic or corporate restructuring alternatives identified will be subject to review and approval of the Diaz Board of Directors and to shareholder and regulatory approvals, as required.

*Corporate Summary*

	<b>Nine Months Ended September 30</b>	
		<i>(Restated)</i>
<i>(Thousands, except per share amounts)</i>	<b>2004</b>	<b>2003</b>
<b>Financial</b>		
Total revenue	\$ 10,551	\$ 7,355
Cash flow	\$ 6,717	\$ 4,452
Cash flow per share, diluted	\$ 0.12	\$ 0.10
Earnings for the period	\$ 976	\$ 1,898
Earnings per share, diluted	\$ 0.02	\$ 0.04
Capital additions	\$ 7,596	\$ 4,893
Dispositions	\$ 219	\$ 518
Net debt	\$ 7,622	\$ 10,024
Total assets	\$ 43,789	\$ 35,181
<b>Operations</b>		
<b>Production</b>		
Gas (MMcfd)	6.3	4.7
Oil (Bopd)	105	75
BOEd (6Mcf = 1Bbl)	1,162	862
<b>Product Prices</b>		
Gas (\$/Mcf)	\$ 6.76	\$ 6.21
Oil (\$/Bbl)	\$ 46.92	\$ 39.51
<b>Total shares outstanding, at period end</b>	<b>58,296</b>	<b>45,877</b>

*Management's Discussion and Analysis*

The following discussion and analysis is management's assessment of Diaz's historical, financial and operating results, together with future prospects, and should be read in conjunction with the unaudited consolidated financial statements of the Company for the nine months ended September 30, 2004. The reader should be aware that historical results are not necessarily indicative of future performance.

The consolidated statement of operations and retained earnings and the consolidated statement of cash flows for the comparative figures, the nine months ended September 30, 2003, have not been reviewed by the Company's external auditors.

### ***Basis of Presentation***

The financial data presented herein has been prepared in accordance with accounting principles generally accepted in Canada. All dollar amounts are in Canadian dollars unless otherwise indicated.

**Non-GAAP Measurements** – The Management’s Discussion and Analysis contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful as an indicator of the Company’s’ performance than, cash flow from operating activities, as determined in accordance with accounting principles generally accepted in Canada. Diaz’s determination of cash flow from operations may not be particularly comparable to that reported by other companies especially those in other industries. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the unaudited interim consolidated financial statements and the audited consolidated financial statements. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

**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.

This discussion and the Company’s **third** quarter interim report contain forward-looking statements that involve risk and uncertainties. Such information, although considered reasonable by management at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made.

<b>Oil &amp; Gas Production</b>	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	2004	2003	2004	2003
<b>Gas - Canada</b>				
Enchant	1,981	893	1,733	933
Retlaw/Little Bow	1,111	1,075	1,059	989
Carmangay	450	289	429	402
Therien	233	285	237	271
Provost	182	203	203	78
Jaslan	242	0	267	-
Edwand	117	0	155	-
Iron Springs	147	231	154	266
Other	400	520	390	645
<b>Gas - Canada (Mcf)</b>	<b>4,863</b>	<b>3,496</b>	<b>4,627</b>	<b>3,584</b>
<b>Oil &amp; Liquids - Canada</b>				
Parkman	37	29	36	32
Neutral Hills	18	22	20	23
Red Earth	14	16	13	16
Prior period adjustment	0	(83)		(28)
Other	22	31	21	27
<b>Oil &amp; Liquids - Canada (Bopd)</b>	<b>91</b>	<b>15</b>	<b>90</b>	<b>70</b>
<b>BOEd - Canada (6Mcf = 1Bbl)</b>	<b>902</b>	<b>598</b>	<b>861</b>	<b>668</b>
<b>Gas - U.S.</b>				
Provident City	1,554	1,904	1,598	1,016
Mustang Creek	67	199	99	106
Other	26	10	16	13
<b>Gas - U.S. (Mcf)</b>	<b>1,647</b>	<b>2,113</b>	<b>1,713</b>	<b>1,135</b>
<b>Oil &amp; Liquids - U.S.</b>				
Provident City	14	9	15	3
Other	1	6		2
<b>Oil &amp; Liquids - U.S. (Bopd)</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>5</b>
<b>BOEd - U.S. (6Mcf = 1Bbl)</b>	<b>290</b>	<b>367</b>	<b>301</b>	<b>194</b>
<b>Gas - Company (Mcf)</b>	<b>6,510</b>	<b>5,609</b>	<b>6,340</b>	<b>4,719</b>
<b>Oil and Liquids - Company (Bopd)</b>	<b>106</b>	<b>30</b>	<b>105</b>	<b>75</b>
<b>BOEd - Company</b>	<b>1,191</b>	<b>965</b>	<b>1,162</b>	<b>862</b>

Diaz is primarily a natural gas producer with approximately 90% of its production in the first nine months of 2004 coming from natural gas wells. Diaz owns interests in producing properties in Alberta and Saskatchewan, in Canada and in the United States, almost exclusively in Texas.

The Company's U.S. natural gas production increased to average 1.7 MMcfd in the first nine months of 2004 from approximately 1.1 MMcfd for the same period in 2003. The increase is primarily due to production from a new zone in the Company's Provident City #1 well, which was completed in June 2003.

In Canada, natural gas production also increased to average 4.6 MMcfd in 2004 compared with 3.6 MMcfd in the first nine months of 2003. This increase was due to new production additions in Q2 2004 at Enchant, Jaslan, Provost and Edward. Canadian gas production declined by 355 Mcfd during Q3 2004 primarily due to initial decline of the flush production of new wells combined with shut-ins resulting from plant turnarounds in southern Alberta during Q3 2004.

Diaz's schedule for tying in new production has been delayed in certain areas due to reduced winter access and the unavailability of equipment. This has reduced the Company's estimate for Q4 production by 150 BOEd to 1,300 BOEd. The new wells tied-in during the quarter will add approximately 2.0 MMcfd to the Company's production by the end of Q1 2005.

Canadian production averaged 4.9 MMcfd in Q3 2004 compared with 3.5 MMcfd in Q1 2004.

<i><b>Product Prices</b></i>	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Canada</b>				
Gas (\$/Mcf)	\$ 6.31	\$ 5.19	\$ 6.48	\$ 6.00
Oil & Liquids (\$/Bbl)	\$ 50.61	\$ 36.75	\$ 46.23	\$ 49.36
\$/BOE	\$ 39.14	\$ 34.25	\$ 39.66	\$ 37.40
<b>U.S.</b>				
Gas (\$/Mcf)	\$ 7.58	\$ 6.61	\$ 7.51	\$ 6.86
Oil & Liquids (\$/Bbl)	\$ 56.20	n/a	\$ 51.08	\$ 34.61
\$/BOE	\$ 46.03	\$ 38.05	\$ 45.38	\$ 41.02
<b>\$/BOE - Company</b>	<b>\$ 40.81</b>	<b>\$ 37.39</b>	<b>\$ 41.14</b>	<b>\$ 38.22</b>

Average commodity prices for the nine months ended September 30, 2004 were modestly higher than prices for the same period in 2003 and the outlook remains positive for gas prices to remain at these levels. Canadian gas prices averaged \$6.48 per Mcf, 8% higher than the price reported in 2003. Prices during the winter months are expected to exceed \$7.00 per Mcf. U.S. gas prices were also 9% higher for the period, at \$7.51 per Mcf.

Diaz believes oil prices will remain high this winter due to a strong global demand for oil and supply concerns in the Middle East and Russia. This will continue to have a positive influence on gas prices and maintain pressure to keep gas prices high despite higher inventory levels. However, the Company has sold forward approximately 2 MMcfd of gas production at an average price of \$5.93 to \$6.25 per Mcf for October and 2 MMcfd of gas production at average prices of between \$6.78 and \$8.02 per Mcf from November 1, 2004 to March 31, 2005.

<b>Revenue from Oil and Gas Production</b> (Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Canada</b>				
Natural gas	\$ 2,822	\$ 1,669	\$ 8,217	\$ 5,870
Oil and natural gas liquids	424	216	1,145	946
Other	6	6	20	15
<b>Total revenue</b>	<b>\$ 3,252</b>	<b>\$ 1,891</b>	<b>\$ 9,382</b>	<b>\$ 6,831</b>
<b>U.S.</b>				
Natural gas	\$ 1,149	\$ 1,285	\$ 3,525	\$ 2,127
Oil and natural gas liquids	75	-	214	48
Other	-	-	1	-
<b>Total Revenue</b>	<b>\$ 1,224</b>	<b>\$ 1,285</b>	<b>\$ 3,740</b>	<b>\$ 2,175</b>
<b>Total Revenue - Company</b>	<b>\$ 4,476</b>	<b>\$ 3,176</b>	<b>\$ 13,122</b>	<b>\$ 9,006</b>

During the first nine months of 2004, Diaz's Canadian gas revenue increased by 40%, to \$8.2 million, from \$5.9 million reported in 2003 as a result of higher natural gas production combined with slightly higher prices. Total revenue increased by 46% to \$13.1 million for the nine months ended September 30, 2004 compared with \$9.0 million in 2003.

With increased production planned to be placed on stream this winter and continued high gas prices, Diaz is confident that its revenues will continue to grow in 2005.

<b>Royalties</b> (Thousands, except percentage and per BOE amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Canada</b>				
Crown	\$ 397	\$ 198	\$ 1,112	\$ 765
Freehold	173	163	583	549
Alberta Royalty Tax Credit (ARTC)	(79)	(33)	(223)	(120)
<b>Royalties, net of ARTC</b>	<b>\$ 491</b>	<b>\$ 328</b>	<b>\$ 1,472</b>	<b>\$ 1,194</b>
per BOE	\$ 5.92	\$ 5.96	\$ 6.24	\$ 6.55
Royalty as a percentage of revenue	15.1%	17.3%	15.7%	17.5%
<b>U.S.</b>				
Royalties	\$ 364	\$ 352	\$ 1,099	\$ 612
per BOE	\$ 13.69	\$ 10.42	\$ 13.34	\$ 11.54
Royalty as a percentage of revenue	29.7%	27.4%	29.4%	28.1%

Royalty rates decreased in Canada during 2004 primarily due to adjustments for the gas cost allowance base used in 2003. Overall royalty rates were relatively unchanged from the prior period.

<b>Operating Expense</b> (Thousands, except per BOE amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Canada</b>	\$ 985	\$ 568	\$ 2,598	\$ 1,579
per BOE	\$ 11.88	\$ 10.32	\$ 11.01	\$ 8.66
<b>U.S.</b>	\$ 28	\$ 14	\$ 79	\$ 29
per BOE	\$ 1.05	\$ 0.41	\$ 0.96	\$ 0.55
<b>Total - Company, per BOE</b>	\$ 9.25	\$ 6.55	\$ 8.41	\$ 6.83

Operating expenses in Canada increased 27% on a BOE basis year-to-date compared with 2003. Most of the increase is due to higher compression and processing fees and repairs and maintenance on third party properties. To reduce operating expenses and increase production, the Company has installed its own compression facilities in the Enchant area.

<b>Overhead</b> (Thousands, except per BOE amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Compensation costs	\$ 208	\$ 201	\$ 648	\$ 627
Stock based compensation costs	13	-	89	-
Other overhead costs	215	200	636	545
Recovered from third parties	(108)	(60)	(297)	(187)
Capitalized	(49)	(57)	(150)	(162)
Net overhead	\$ 279	\$ 284	\$ 926	\$ 823
per BOE	\$ 2.55	\$ 3.20	\$ 2.91	\$ 3.50

Overhead costs increased by 13% to \$926,000 during the nine months ended September 30, 2004 primarily as a result of the non-cash compensation costs associated with employee options granted during the period.

<b>Interest Expense</b> (Thousands, except per BOE and percentage)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Average bank debt	\$ 7,635	\$ 9,407	\$ 7,495	\$ 9,281
Interest expense	\$ 99	\$ 146	\$ 276	\$ 397
per BOE	\$ 0.90	\$ 1.64	\$ 0.87	\$ 1.69
Average interest rate	4.6%	5.5%	4.7%	5.4%

Total interest expense decreased to \$276,000 during the nine months ended September 30, 2004 from \$397,000 reported one year earlier. This was due to the smaller loan balance during the current period as well as a lower interest rate.

Diaz reduced its bank debt in Q4 2003 with the proceeds from two equity financings completed during the period. Diaz anticipates its debt level will remain under \$9.0 million for the remainder of the year.

<b>Depletion, Depreciation &amp; Amortization</b> <i>(Thousands, except per BOE amounts)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<b>Canada</b>				
Depletion and depreciation	\$ 1,531	\$ 752	\$ 3,970	\$ 2,137
Asset Retirement Obligation accretion	54	-	130	44
	1,585	752	4,100	2,181
per BOE	\$ 19.11	\$ 13.66	\$ 17.37	\$ 11.97
<b>U.S.</b>				
Depletion and depreciation	\$ 218	\$ 149	\$ 584	\$ 206
Asset Retirement Obligation accretion	-	-	1	1
Amortization of deferred credit	-	(55)	(15)	(55)
Net depletion and depreciation	\$ 218	\$ 94	\$ 570	\$ 152
per BOE	\$ 8.20	\$ 2.78	\$ 6.92	\$ 2.87
<b>Total - Company</b>	\$ 1,803	\$ 846	\$ 4,670	\$ 2,333
<b>per BOE</b>	\$ 16.46	\$ 9.53	\$ 14.67	\$ 9.92

The higher depletion rate reflects the poor finding costs reported in 2003. These rates will continue at the current level until such time as the finding costs are significantly reduced.

### ***Oil and Gas Reserves***

Diaz has engaged AJM Petroleum Consultants, independent engineering consultants, to prepare a reserve and economic evaluation of its oil and gas properties effective September 30, 2004.

The AJM report assigned proved and probable reserves of 23.5 Bcf of natural gas and 244 Mstb of oil to Diaz as at September 30, 2004.

The present value of the reserves, discounted at 10%, has increased from the December 31, 2003 evaluation by 38.1%, to \$56.9 million and Diaz's proved producing reserve value has increased by 70.5%, to \$29.0 million. The increased values reflect Diaz's successful 2004 development program, which included the connection of 18 gas wells and one oil well during the first nine months of 2004, and an increase in commodity prices.

During the first nine months of 2004, proved reserves remained relatively unchanged as production of 338 MBOE was replaced by 335 MBOE of additions to reserves, net of revisions to prior reserves. Probable reserves declined by 325 MBOE. Revisions to prior estimates, primarily associated with probable reserves assigned to wells in Texas, resulted in a 485 MBOE reduction in probable reserves. This was partly offset by additions to probable reserves of 160 MBOE.

**SUMMARY OF OIL AND GAS RESERVES  
AND NET PRESENT VALUES OF FUTURE NET REVENUE  
AS OF SEPTEMBER 30, 2004  
FORECAST PRICES AND COSTS**

RESERVES CATEGORY	RESERVES							
	LIGHT AND MEDIUM OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross <sup>(2)</sup> (MBbl)	Net <sup>(3)</sup> (MBbl)	Gross (MBbl)	Net (MBbl)	Gross (MMcf)	Net (MMcf)	Gross (MBbl)	Net (MBbl)
PROVED								
Developed Producing	194	165	6	5	8,900	7,248	11	9
Developed Non-producing	-	-	-	-	461	394	-	-
Undeveloped	-	-	-	-	5,633	4,869	9	6
<b>TOTAL PROVED</b>	<b>194</b>	<b>165</b>	<b>6</b>	<b>5</b>	<b>14,994</b>	<b>12,511</b>	<b>20</b>	<b>15</b>
<b>PROBABLE</b>	<b>9</b>	<b>9</b>	<b>7</b>	<b>6</b>	<b>8,544</b>	<b>7,092</b>	<b>8</b>	<b>5</b>
TOTAL PROVED PLUS								
<b>PROBABLE</b>	<b>203</b>	<b>174</b>	<b>13</b>	<b>11</b>	<b>23,538</b>	<b>19,603</b>	<b>28</b>	<b>20</b>

**NET PRESENT VALUES OF FUTURE NET REVENUE<sup>(4)</sup>**

**BEFORE INCOME TAXES DISCOUNTED AT:**

(% per year)

RESERVES CATEGORY	(% per year)		
	0 (MM\$)	10 (MM\$)	15 (MM\$)
PROVED			
Developed Producing	38.0	29.0	26.3
Developed Non-producing	1.9	1.6	1.5
Undeveloped	17.0	10.3	8.3
<b>TOTAL PROVED</b>	<b>56.9</b>	<b>40.9</b>	<b>36.1</b>
<b>PROBABLE</b>	<b>31.2</b>	<b>16.0</b>	<b>12.6</b>
TOTAL PROVED PLUS			
<b>PROBABLE</b>	<b>88.2</b>	<b>56.9</b>	<b>48.7</b>

NOTE: (1) Figures may not add due to rounding.

(2) Gross reserves are Diaz's share of reserves before royalties.

(3) Net reserves are Diaz's share of reserves and royalty interest, net of royalties payable to third parties.

(4) Net present value of future net revenue assumes an AECO average gas price of \$7.00/Mcf until the end of 2005, \$6.85 in 2006, \$6.25 in 2007 and \$6.05 in 2008 and a Nymex gas price of \$6.00 US to 2005, \$5.75 US in 2006, \$5.25 US in 2007 and \$5.00 US in 2008. Oil price was assumed to be \$57.55 in 2004, \$52.20 in 2005, \$47.85 in 2006, \$46.05 in 2007 and \$44.15 in 2008 at Edmonton City Gate in Canada and WTI prices of \$44.00 US in 2004, \$40.00 US in 2005, \$36.00 US in 2006, \$34.00 US in 2007 and \$32.00 US in 2008.

***Net present value does not represent fair market value***

**Quarterly Financial Information**

<i>(Thousands, except per share amounts)</i>	<b>Three Months Ended</b>							
	2004	2004	2004	2003	2003	2003	2003	2002
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Total revenue	\$ 3,621	\$ 3,818	\$ 3,112	\$ 2,658	\$ 2,699	\$ 2,215	\$ 2,389	\$ 2,125
Earnings (loss) per share	\$ 26 \$ 0.00	\$ 360 \$ 0.01	\$ 590 \$ 0.01	\$ 195 \$ 0.01	\$ 693 \$ 0.02	\$ 739 \$ 0.01	\$ 466 \$ 0.01	\$ 186 \$ 0.00
Cash flow from operations per share	\$ 2,204 \$ 0.12	\$ 2,540 \$ 0.08	\$ 1,973 \$ 0.03	\$ 1,395 \$ 0.02	\$ 1,672 \$ 0.10	\$ 1,268 \$ 0.06	\$ 1,483 \$ 0.03	\$ 1,048 \$ 0.02
Fixed asset additions (net)	\$ 2,117	\$ 2,348	\$ 2,912	\$ 3,763	\$ 1,590	\$ 957	\$ 1,292	\$ 1,412
Total assets	\$43,789	\$43,251	\$39,805	\$40,167	\$40,167	\$33,449	\$33,262	\$32,172
Working capital deficiency	\$ 7,622	\$ 7,882	\$ 7,992	\$ 7,100	\$10,024	\$10,042	\$ 9,793	\$ 9,914

**Liquidity and Capital Resources**

Diaz completed the nine months ended September 30, 2004 with a net debt of \$7.6 million compared with \$10.0 million in 2003. The Company has a credit facility of \$9.6 million.

The Company's capital expenditure budget for 2004 will be funded primarily from cash flow.

**Income Taxes**

Diaz reports future tax expense of \$942,000 and current capital taxes of \$44,000. The Company does not anticipate being taxable in 2004, however, Diaz may be taxable on its earnings in 2005.

**Issuer Bid**

During the nine months ended September 30, 2004, Diaz repurchased 210,500 Multiple Voting Shares and 258,000 Class A Subordinate Voting Shares and at an average price of \$0.52 per share.

**Business Risk**

The Company is engaged in the exploration, development, production and acquisition of crude oil and natural gas. Diaz's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, a complex regulatory environment and safety concerns.

The Company minimizes its business risks by focusing on a select group of properties. This enables Diaz to have more control over the timing, direction and costs related to exploration and development opportunities. The geological focus is on areas in which the prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up-to-date emergency response plan that has been communicated to all field operations by management. Diaz also carries insurance coverage to protect itself against potential losses.

Employing a highly motivated and experienced staff of petroleum and natural gas professionals further minimizes the business risk.

The Company is exposed to commodity price and market risk for its principal products of petroleum and natural gas. Commodity prices are influenced by a wide variety of factors of which most are beyond the control of Diaz. To manage this risk, the Company has entered into a number of forward sales contracts in relation to gas prices.

### ***Outlook***

Diaz anticipates higher natural gas production in Canada, combined with high natural gas prices, will provide the necessary cash flow to continue increasing the Company's production levels and reserve base. Diaz's exploration and development program affords the Company a balance between low risk infill development drilling and higher impact exploration in both Canada and the U.S.

## Consolidated Balance Sheet

(unaudited)

(Restated-Note2)

(Thousands)

September 30

December 31

As at

2004

2003

	2004	2003
<b>ASSETS</b>		
Current Assets		
Cash	\$ 826	\$ 124
Accounts receivable	4,511	4,517
Prepaid expense	267	200
	<b>5,604</b>	4,841
Future tax asset	-	70
Property, plant and equipment	57,875	50,387
Accumulated depletion, depreciation and accretion	(19,690)	(15,131)
	<b>38,185</b>	35,256
Total Assets	<b>\$ 43,789</b>	\$ 40,167
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 4,672	\$ 6,510
Bank debt (Note 3)	8,554	5,431
	<b>13,226</b>	11,941
Other Liabilities		
Future income tax liability	5,159	4,319
Deferred credits	-	15
Asset retirement obligation (Note 6)	2,559	2,314
Total Other Liabilities	<b>7,718</b>	6,648
	<b>20,944</b>	18,589
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4)	15,618	15,303
Contributed surplus	287	198
Retained earnings	6,940	6,077
	<b>22,845</b>	21,578
Total Liabilities and Shareholders' Equity	<b>\$ 43,789</b>	\$ 40,167

Approved by the Board:

(Signed) "R.W. Lamond" Director

(Signed) "C.A. Teare" Director

## Consolidated Statement of Operations & Retained Earnings

(unaudited)

(Thousands, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	<i>(Restated-Note2)</i>		<i>(Restated-Note2)</i>	
	2004	2003	2004	2003
<b>Revenue</b>				
Production	\$ 4,471	\$ 3,373	\$ 13,101	\$ 9,146
Royalties	(934)	(713)	(2,794)	(1,926)
Alberta Royalty Tax Credit	79	33	223	120
Interest and other income	5	6	21	15
	<b>3,621</b>	2,699	<b>10,551</b>	7,355
<b>Expenses</b>				
Operating	1,013	582	2,677	1,608
General and administration	279	284	926	823
Interest expense	99	146	276	397
Foreign exchange loss	58	25	40	79
Depletion, depreciation and accretion	1,803	814	4,670	2,300
	<b>3,252</b>	1,851	<b>8,589</b>	5,207
Earnings before income tax	<b>369</b>	848	<b>1,962</b>	2,148
Income tax				
Current	39	15	44	75
Future	304	140	942	175
Total income tax	<b>343</b>	155	<b>986</b>	250
Net earnings for the period	<b>26</b>	693	<b>976</b>	1,898
Excess of cost over paid up capital on share repurchases	(49)	(6)	(111)	(13)
Retained earnings, beginning of period	<b>6,984</b>	5,380	<b>6,067</b>	3,979
Change in accounting policies (Note 2)	(21)	2	8	205
Retained earnings, end of period	\$ <b>6,940</b>	\$ 6,069	\$ <b>6,940</b>	\$ 6,069
Earnings per share, basic and diluted	\$ <b>0.00</b>	\$ 0.02	\$ <b>0.02</b>	\$ 0.04

## Consolidated Statement of Cash Flows

(unaudited)

(Thousands)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	<i>(Restated-Note2)</i>		<i>(Restated-Note2)</i>	
	2004	2003	2004	2003
Cash provided by (used for):				
Operating Activities				
Earnings for the period	\$ 26	\$ 693	\$ 976	\$ 1,898
Non-cash items:				
Depletion, depreciation and accretion	1,803	814	4,670	2,300
Non-cash compensation	13	-	89	-
Future taxes	304	140	942	175
Foreign exchange loss	58	25	40	79
Cash flow from operations	2,204	1,672	6,717	4,452
Change in non-cash working capital	1,499	985	383	278
	3,703	2,657	7,100	4,730
Investing Activities				
Property, plant & equipment - additions	(2,319)	(1,840)	(7,596)	(4,893)
Property, plant & equipment - dispositions	202	250	219	518
Site restoration	(19)	(42)	(169)	(65)
Change in non-cash working capital	(2,505)	(1,419)	(2,180)	(1,319)
	(4,641)	(3,051)	(9,726)	(5,759)
Financing Activities				
Increase (decrease) in bank debt	(114)	648	3,123	1,257
Class A Subordinate Voting Shares				
Issued for cash on exercise of options	373	-	450	-
Repurchased for cancellation	(99)	(12)	(119)	(57)
Class B Multiple Voting Shares				
Repurchased for cancellation	(16)	(4)	(124)	(5)
Offering cost	-	-	(2)	-
	144	632	3,328	1,195
Increase (decrease) in cash	(794)	238	702	166
Cash, beginning of period	1,620	66	124	138
Cash, end of period	\$ 826	\$ 304	\$ 826	\$ 304
Supplementary Information Regarding Cash Payments:				
Interest paid during the period	\$ 99	\$ 146	\$ 276	\$ 397
Taxes paid during the period	\$ 39	\$ 25	\$ 44	\$ 63

## Notes to the Interim Financial Statements

### For the Nine Months Ended September 30, 2004

#### 1. Accounting Policies

The interim consolidated financial statements of Diaz Resources Ltd. (“Diaz”) have been prepared in accordance with accounting principles generally accepted in Canada. Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect Diaz’s financial position or results of operations. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The reader should refer to the annual consolidated financial statements of Diaz at December 31, 2003.

#### 2. Change in Accounting Policy

##### a) Asset retirement obligations

As at January 1, 2004, the Company has retroactively adopted the Canadian Institute of Chartered Accountants (“CICA” guideline for accounting for asset retirement obligation - “ARO”). Under this standard, the Company must recognize the fair value of an 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 will be expensed.

Previously, the Company provided for estimated future abandonment and site restoration costs for its oil and gas properties using the unit-of-production method. The adoption of the new policy resulted in increasing retained earnings at December 31, 2003 by \$226,000 (2002 – (\$203,000)), and a decrease in the earnings for the nine months ended September 30, 2003 of \$205,000. An additional effect of this change is an increase to property, plant and equipment of \$2,147,000 at December 31, 2003 (2002 - \$1,913,000) and an increase to liabilities of \$1,921,000 (2002 - \$1,710,000) at December 31, 2003.

##### b) Stock based compensation

At January 1, 2004, the Company adopted the fair value method for accounting of stock based compensation. The change was accounted for retroactively without restatement of prior period numbers. Using the fair value method, compensation costs of stock based compensation are estimated and charged to earnings in the period of the option grant.

Previously, the Company used the intrinsic value method and no compensation expense was recognized.

As a result of this change in accounting policy, retained earnings at January 1, 2004 have been decreased by \$198,000 and share surplus has been increased by \$198,000.

##### c) Oil and gas full cost accounting

As at January 1, 2004, the Company adopted Accounting Guideline 16, “Oil and Gas Accounting – Full Cost” (“AcG-16), replacing AcG-5. AcG-16 provides for methodology consistent with

CICA Section 3063, “Impairment of Long-lived Assets” and CICA Section 3475, “Disposal of Long-lived Assets and Discontinued Operations.”

The new standards prescribed the recognition of impairment only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and measure the impairment amount as the difference between the carrying amount and the fair value. In addition, discontinued operations disclosure will be required upon the disposition of a component or cost centre of the entity rather than an entire business segment. There was no effect on the Company’s financial statements.

### 3. Long-term Debt

All credit facilities that are revolving, in nature, must be disclosed as “current portion of long-term debt.” 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.

### 4. Share Capital

<i>(Thousands)</i>	<b>September 30, 2004</b>	
	<b>No. of Shares</b>	<b>Amount</b>
<b>Class A Subordinate Voting Shares</b>		
Balance, December 31, 2003	51,104	\$ 13,459
Issued on exercise of options	1,487	450
Offering expense	-	(2)
Repurchased for cancellation	(258)	(70)
Balance, September 30, 2004	52,333	\$ 13,837
<b>Class B Multiple Voting Shares</b>		
Balance, December 31, 2003	6,174	\$ 1,844
Repurchased for cancellation	(211)	(63)
Balance, September 30, 2004	5,963	\$ 1,781
Contributed Surplus	-	287
<b>Total Shares Outstanding, September 30, 2004</b>	<b>58,296</b>	<b>\$ 15,905</b>

#### ***Voting Rights***

Class A Subordinate Voting Shares carry voting rights of one vote per share; Class B Multiple Voting Shares carry voting rights of 25 votes per share.

#### ***Restrictions on Issuance***

Additional Class B Shares may only be issued on conversion of Class A Shares in the event of a take-over bid, which has been accepted by holders of 50.1% of the Class B Shares. Class A Shares may be converted into Class B Shares on the basis of one Class B Share for each Class A Share converted.

**Conversion Provisions**

In the event of a take-over bid, which has been accepted by holders of 50.1% of the Class B Shares, Class A Shares may be converted into Class B Shares on the basis of one Class B Share for each Class A Share converted.

**Stock Option Plan**

As at September 30, 2004, there are a total of 1,793,333 options granted and outstanding under the stock option plan with a weighted average exercise price of \$0.31 per share. A total of 1,328,433 options with a weighted average exercise price of \$0.31 are exercisable at the end of the period.

The Company accounts for its stock based compensation plan using the fair value method, whereby compensation costs are charged to earnings in the period in which they are incurred.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions as follows: Risk free interest rate – 3.00%; Expected lives (years) – 4.00; Expected volatility – 0.90 and Dividends per share – nil.

**5. Financial Instruments**

The Company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. dollar exchange rates. The Company, when appropriate, utilizes financial instruments to manage its exposure to these risks.

**Natural gas contracts**

At September 30, 2004, the following fixed price contracts were in effect:

**Fixed Price**

Volume	Fixed Price		Time Period for Contract
	(\$/GJ)	(\$/Mcf)	
500 GJd (475 Mcfd)	\$5.76	\$6.05	Oct. 1, 2004 to Oct. 31, 2004
500 GJd (475 Mcfd)	\$5.77	\$6.06	Oct. 1, 2004 to Oct. 31, 2004

**Costless Collar**

Volume	Floor Price		Ceiling Price		Time Period for Contract
	(\$/GJ)	(\$/Mcf)	(\$/GJ)	(\$/Mcf)	
1,000 GJd (950 Mcfd)	\$5.50	\$5.80	\$6.10	\$6.44	Oct. 1, 2004 to Oct. 31, 2004
1,000 GJd (950 Mcfd)	\$6.40	\$6.72	\$7.40	\$7.77	Nov. 1, 2004 to Mar. 31, 2005
1,000 GJd (950 Mcfd)	\$6.50	\$6.83	\$7.87	\$8.26	Nov. 1, 2004 to Mar. 31, 2005

**6. Asset Retirement Obligation**

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

		<b>2004</b>		2003
Asset Retirement Obligation, beginning of period	\$	2,314	\$	2,024
Liabilities incurred		281		129
Liabilities settled		(169)		(46)
Accretion expense		131		105
Foreign exchange		2		(2)
Asset Retirement Obligation, end of period	\$	2,559	\$	2,210

The total undiscounted amount of estimated cash flows required to settle the obligation is \$4,476,000, which has been discounted using a credit-adjusted risk free rate of 7 percent. Most of these obligations are expected to be paid between 2002 and 2022.

**7. 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.

	Three Months Ended September 30		Nine Months Ended September 30	
	(Thousands) 2004	(Restated-Note2) 2003	2004	(Restated-Note2) 2003
<b>Revenue (net)</b>				
Canada	\$ 2,761	\$ 1,754	\$ 7,910	\$ 5,828
United States	860	945	2,641	1,527
	\$ 3,621	\$ 2,699	\$ 10,551	\$ 7,355
<b>Interest Expense</b>				
Canada	\$ 99	\$ 146	\$ 276	\$ 397
United States	-	-	-	-
	\$ 99	\$ 146	\$ 276	\$ 397
<b>Current Taxes</b>				
Canada	\$ 15	\$ 15	\$ 20	\$ 75
United States	24	-	24	-
	\$ 39	\$ 15	\$ 44	\$ 75
<b>Cash Flow from Operations</b>				
Canada	\$ 1,400	\$ 760	\$ 4,207	\$ 2,974
United States	804	912	2,510	1,478
	\$ 2,204	\$ 1,672	\$ 6,717	\$ 4,452
<b>Depletion and Depreciation</b>				
Canada	\$ 1,585	\$ 721	\$ 4,100	\$ 2,149
United States	218	93	570	151
	\$ 1,803	\$ 814	\$ 4,670	\$ 2,300
<b>Net Earnings (Loss)</b>				
Canada	\$ (559)	\$ (41)	\$ (434)	\$ 976
United States	585	734	1,410	922
	\$ 26	\$ 693	\$ 976	\$ 1,898
<b>Additions to Property, Plant &amp; Equipment</b>				
Canada	\$ 2,061	\$ 1,721	\$ 6,599	\$ 3,724
United States	(10)	119	889	1,169
	\$ 2,051	\$ 1,840	\$ 7,488	\$ 4,893
<b>Identifiable Assets, Net</b>				
Canada	\$ 39,765	\$ 31,255	\$ 39,765	\$ 31,255
United States	4,024	3,926	4,024	3,926
	\$ 43,789	\$ 35,181	\$ 43,789	\$ 35,181

FOR FURTHER INFORMATION, PLEASE CONTACT:

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*Forward-looking statements – statements included in this press release that are not historical facts may be considered “forward-looking statements.” All estimates and statements that describe the Company’s objectives, goals or future plans are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties where actual results could differ materially from those currently anticipated.*

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