



**DIGGER RESOURCES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SIX MONTHS ENDED JANUARY 31, 2012 AND 2011**

[March 15, 2012]

**DIGGER RESOURCES INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
SECOND QUARTER ENDED JANUARY 31, 2012**

This Management’s Discussion and Analysis (“MD&A”) is intended to provide the reader with a better understanding of the activities of Digger Resources Inc. (“Digger or the Company”) and its key financial results. In particular, it explains changes in the Company’s financial position and operating results for the second quarter ended January 31, 2012 by comparing it to those of the second quarter of the previous fiscal year. As explained in note 3 of the unaudited interim condensed consolidated financial statements for the three and six month periods ended January 31, 2012, Canadian generally accepted accounting principles (“GAAP”), previously used to prepare the consolidated financial statements, was replaced with International Financial Reporting Standards (“IFRS”) as at August 1, 2011. Hence the Company’s consolidated financial statements for the three month and six month periods ended January 31, 2012 have been prepared in accordance with IFRS. Figures for the comparable period of the 2011 fiscal year ended July 31, 2011 were also adjusted.

This MD&A has been prepared in accordance with *National Instrument 51-102, Continuous Disclosure Obligations*, and should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2011 and the Management’s Discussion and Analysis for the fiscal year ended July 31, 2011. It should also be read in conjunction with the information on adjustments to comparative figures of the 2011 fiscal year following the adoption of IFRS as explained in note 17 of the unaudited interim condensed consolidated financial statements for the three and six month periods ended January 31, 2012.

The unaudited interim condensed consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Company’s Board of Directors. Unless otherwise indicated all the amounts in this MD&A are in thousands of Canadian dollars. The MD&A was prepared as at March 15, 2012 and these documents, along with additional information about the Company, are available at [www.diggerresources.com](http://www.diggerresources.com) and [www.sedar.com](http://www.sedar.com).

The Company’s independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the Canadian Institute of Chartered Accountants standards for a review of interim financial statements by the entity’s auditors.

**Forward Looking Statements**

Except for historical information, the MD&A may contain forward-looking statements. Forward-looking statements can be identified by terms such as “should”, “expects”, “anticipates”, “predicts”, “undertakes” and other similar terms and expressions. These statements are based on the information available at the time they were prepared and management’s good faith assumptions and expectations regarding future events, and inherently involve known and unknown risks and uncertainties such as, but not limited to, competition, the Company’s ability to build its technology, the Company’s ability to develop its marketing network and enter into new commercial agreements in the oil and gas sector or in Digger’s continuous disclosure filings that may cause the Company’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward looking statements and as such should not be unduly relied upon. Except as required by law, the Company does not intend, and undertakes no

obligation, to update any forward-looking statements to reflect, in particular, new information or future events.

### Highlights

As earlier reported effective October 5, 2010 ALS Laboratory Group (“ALS”) granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant (the “Leachant”) that is being used by Digger to assist oil and gas explorers in the environmentally sound discovery and development of new oil and natural gas reserves through the detection of metallic and non-metallic ions in near surface soil profiles. The Company will pay to ALS an ongoing licensing fee of AUD \$10 per sample analyzed for exclusivity of use for the Leachant and use ALS as its sole analytical service provider. ALS further agreed to assist Digger to develop and adjust the formulation of the Leachant product through the course of the license to best suit the needs of Digger’s clients. The term of the agreement with ALS is for three years with two renewable terms of five years each. ALS has introduced Digger and its High Definition Reservoir Geochemistry technology (“HDRG”) to a number of its clients in the Middle East and in Australia. In that regard the terms of an HDRG orientation survey for a fully integrated international petroleum company have been agreed upon. The HDRG orientation survey consisted of 198 samples and resulted in net revenues to Digger of CDN \$30,690. The samples were collected in October 2011 and analyzed in November 2011. The goal of this HDRG survey was to template oil and gas accumulations in the area to see if there was a significant geochemical signal at surface that matched the subsurface hydrocarbon distribution. In the view of the fully integrated international petroleum company the HDRG survey matched the subsurface hydrocarbon distribution and it is anticipated by Digger’s management that there will be significant follow-up HDRG sampling programs undertaken for the fully integrated international petroleum company.

Digger maintains an active research and development program in conjunction with the Green Dragon Investments Ltd. (“Green Dragon”) ongoing drill testing and validation programs in southwestern Saskatchewan. Continuing work in the Suffield District in southwestern Saskatchewan suggests that the highest HDRG responses at surface appear to be reflecting zones of maximum hydrocarbon accumulation that correspond to structural and stratigraphic traps thereby identifying the optimum target position for a well to be located.

As earlier reported Green Dragon drilled its 3-1-14-19W3M vertical well, its 15-36-13-19W3M vertical well and its 1-17-14-18W3M vertical well solely on the basis of an HDRG geochemical anomaly. In all cases drilling intersected a pay zone associated with the Lower Shaunavon sands. The Lower Shaunavon Formation had not previously been an exploration target in this immediate area. Offsetting P&NG leases to these Green Dragon lands have recently been purchased for plus \$1million dollars a section. Arc Resources Ltd. has just drilled and completed a horizontal well on these lands. In Digger’s view, based on Green Dragon’s earlier HDRG sampling programs over this offsetting acreage, the offsetting acreage is not prospective.

### Company Profile

The Company’s principal business activity is, through the application of its HDRG ionic soil technology, the development of an effective exploration technique as an adjunct to existing seismic methods and to assist in the environmentally sound discovery and development of new oil and natural gas reserves through the detection of metallic and non-metallic ions in near surface soil profiles. The Company is a reporting issuer in Alberta and British Columbia and trades on the NEX Board of the TSX Venture Exchange under the ticker symbol “DIG.H”.

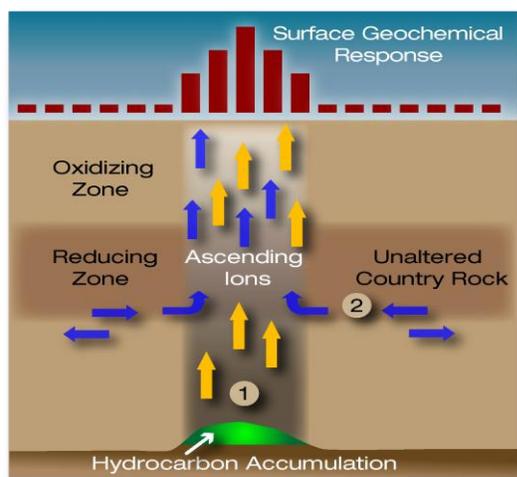
Geophysics, principally seismic techniques, has and will continue to provide the primary methods for discovery of sub-surface oil and gas. Seismic is without peer for high-resolution structural mapping over a depth range measured in kilometers (“km”). It is however not strongly influenced by the presence or absence of petroleum. Surface geochemistry is an additional tool in determining the presence of hydrocarbons at depth. Detection of hydrocarbon accumulations by surface geochemistry has been discussed in a number of publications. The fundamental theory behind using surface geochemistry to indicate the presence of petroleum at depth is not well understood, but is predicated on the empirical observations that hydrocarbons migrate to the surface through seemingly impervious barriers and leave their signatures in soils.

The presence of various metallic and non-metallic ions (geochemical signatures) directly above oil and gas accumulations has been well documented. In the past it has been difficult to measure these anomalies both accurately and with a high degree of repeatability, which has severely hampered its applicability and value for hydrocarbon exploration. HDRG works by detecting metallic and non-metallic ions that form geochemical signatures directly above oil and gas accumulations. The technology is based on the collection and analysis of near soil samples using a proprietary Leachant and ultra low-level inductively coupled plasma analyses. The metallic and non-metallic ion geochemistry employed by Digger is a very different approach to the analysis of metals and non-metals in soils and involves the use of extremely weak chemicals rather than the conventional aggressive acid or fire assay techniques. Conventional techniques digest soils releasing metals that are chemically bound by strong atomic forces, either to each other or to clays and other mineral particles in the soil sample. By contrast the mobile metal ion extractant, Leachant, used by Digger contain chemicals to detach and hold in solution only the metallic/non-metallic ions that are loosely bound to the soil particles by weak atomic forces. This extractant deliberately avoids dissolving the bound forms of the metals and the metallic/non-metallic ions held in solution represent the chemically active or ‘mobile’ component of each element in a soil sample. These mobile forms occur in very low concentrations that can now be readily measured by modern commercially available inductively coupled plasma mass spectrometry analytical instrumentation. This delivers data with very high precision and accuracy, provided that the solution delivered to the machine is dilute and clean. Digger’s HDRG Leachant meets these criteria particularly well.

The HDRG anomaly is derived a number of sources including anomalous elements from hydrocarbon accumulation migrating toward the surface and migration of country rock elements within a reducing vertical ionic plume or path. By deliberately targeting only the recently arrived or mobile forms of metal and non-metallic elements, prior to chemical binding and dispersion and physical spreading across the landscape, mobile ion geochemistry used by Digger can give both higher resolution and better definition thus presenting a more focused geochemical expression of oil and gas pools. Output for interpretation is typically an index or mathematical function derived from a group elements that quantify specific responses recognized as typifying hydrocarbon accumulation at depth. The key elements groups vary depending on the specific fields being surveyed. A Petroleum Significance Indicator Element Group (“PSI”), representing specific group(s) of elements recognized as characteristic of individual reservoirs, are combined into an index value. Prior to the development of the optimum PSI for a survey area the data is normalized to compensate for land form and regolith, pedogenic processes active at each site, any significant soil chemistry effecting individual element responses and the evidence for ion migration. Once the data has been adjusted for these factors, interpretation can proceed.

Over the last ten (10) plus years Digger has completed upwards of fifteen (15) HDRG orientation surveys over existing oil and gas fields. Found in all cases was a sharp anomaly, over background, residing vertically over the oil and gas accumulations and a completely flat response

over the dry wells in the same area. These anomalies were consistent with patterns characteristic with the oil traps discovered in the Green Dragon 4-13-14-19W3M well (“4-13”), the 3-1-14-19W3M well, the 15-36-13-19W3M well and the 1-17-14-18W3M well (“1-17”), all drilled in southwestern Saskatchewan on the basis of an HDRG geochemical anomaly. Since the 4-13 was drilled nine wells have been drilled, based on seismic interpretation, within a one mile radius around the 4-13 and in all cases the wells drilled have been dry holes, marginal producers or uneconomic to produce. The 1-17 wildcat well, there was very limited well control in that the nearest producing well to the 1-17 was in excess of 2.4km away, intersected an oil zone in the Roseray Formation with 4.5m of gross well log pay. Drilling also encountered a second oil zone associated with the Lower Shaunavon Formation with 6m of gross well log pay. The Roseray and Lower Shaunavon Formations had not previously been exploration targets in this immediate area.



**This diagram shows an ionic plume, generated over oil & gas pools, migrating vertically to the surface**

**Using a proprietary mobile ion leach (HDRG), metallic and non-metallic ions are measured and interpreted to accurately define the anomalies, and thus pinpoint the location of buried oil & gas accumulations at depth.**

### Target Market

Whilst Digger’s management considers the full market opportunity for HDRG to be suitable for all oil and gas explorers, Digger focused on developing oil and gas targets through related company Green Dragon, Green Dragon’s sole director is the wife of a Digger director, that drill-tested HDRG generated anomalies. Because of the reluctance of the oil and gas explorers to accept geochemical applications, as opposed to geophysical solutions, in the search for oil and gas reserves the Company’s focus has been on the validation of its HDRG technology by ensuring that oil wells got drilled solely on the basis of HDRG anomalies as the key performance metric of Digger’s HDRG program. With the successful drilling outcomes HDRG has confirmed its ability to precisely define an anomaly related to hydrocarbon accumulations that, for reasons of reservoir thickness and geological contrast, previous seismic programs were unable to resolve. This has positioned the Company’s HDRG technology as a primary cost effective exploration tool to be used by participating companies for oil and gas exploration. In 2011 / 2012 presentations were made to oil & gas explorers with a view to opening up the use of HDRG to third party oil and gas explorers. Digger’s management is of the view that HDRG technology is now functional at a commercial level, cost effective, robust and reproducible and remarkably effective given the early stage of its commercial application for petroleum exploration.

### Business Model

The Company currently charges oil and gas explorers CDN \$200 per HDRG sample analyzed exclusive of collection and transport to the lab for analyses. DIG then provides an interpretation to

the client which involves HDRG ionic de-absorption analysis samples and includes database construction incorporating analyses, coordinates and response ratios and generation of a Petroleum Significance Index. Work in the Suffield District in southwestern Saskatchewan suggests that the highest HDRG responses at surface appear to be reflecting the zones of maximum hydrocarbon accumulation that correspond to stratigraphic and structural traps thereby identifying the optimum target position for a well to be located.

The rapid deployment of the Company’s technology and its future growth depends in part on its ability to develop profitable strategic alliances. The agreement with ALS will assist in the further development of HDRG and the marketing of that technology. ALS is an internationally diversified testing services organization employing over 6,000 staff in 160 locations and 40 countries with a presence on every continent, offering a broad range of analytical services to leading global companies, governments and academic institutions. ALS has introduced Digger and HDRG to a number of its clients in the Middle East and in Australia. It is anticipated that this contact will result in HDRG sample jobs over the coming months.

### Outlook

The Company will continue to closely monitor its level of cash while targeting a capital structure allowing for the realization of its business plan including the sales and marketing of its HDRG technology. By increasing its visibility and brand awareness through its association with ALS, Digger believes that all of its business will eventually experience sustained growth.

In the past, related parties have advanced funds to the Company on an unsecured basis thereby ensuring that Digger is able meet existing operating costs and commitments. These unsecured advances were non-interest bearing and were not to be paid within the next 12 months unless additional funding was realized through HDRG sampling surveys or a financing. The Company closed a non-brokered private placement financing in August 2011 and the advanced funds were repaid by Digger.

**Financial Data**

The following table presents consolidated financial data for the years ended July 31 (note 2012 is Q1 and Q2 results only):

<b>Selected Annual Information</b>				
<b>Information from the Consolidated Statements of Operations and Deficit</b>	Six Months ended January 31	Year ended July 31	Year ended July 31	Year ended July 31
	2012 (IFRS)	2011 (IFRS)	2010 (GAAP)	2009 (GAAP)
Revenues	51,672	124,800	10,000	30,800
Net Income (Loss) and comprehensive loss	22,363	34,174	(50,967)	(191,643)
Income(Loss) per share – basic and diluted	0.002	0.004	(0.005)	(0.002)
<b>Information from the Consolidated Statements of Cash Flows</b>				
Cash flows relating to operating activities	(56,446)	59,698	(46,008)	(30,427)
<b>Information from the Consolidated Balance Sheet</b>				
Cash equivalents and short term investments	87,952	59,933	533	399
Working Capital deficiency	118,776	(301,542)	(339,809)	(293,014)
Total Assets	122,553	60,887	5,653	9,995
Long term debt, including current portion	Nil	Nil	Nil	Nil
Total liabilities	911	361,608	340,548	293,923
Shareholder's equity (Deficiency)	121,642	(300,721)	(334,895)	(283,928)

The following table presents selected significant financial data for the most recent quarter and the corresponding period of the previous fiscal year.

<b>Information from the Consolidated Statements of Operations and Deficit</b>	Second Quarter Ended January 31	Second Quarter Ended January 31	Six month period ended January 31	Six month period ended January 31
	2012	2011	2012	2011
Revenues	30,690	124,110	51,672	124,110
Net Income and comprehensive	8,049	87,424	22,363	83,962
Income per share – basic and diluted	0.001	0.009	0.002	0.009
<b>Information from the Consolidated Statements of Cash Flows</b>				
Cash flows relating to operating activities	(20,882)	89,421	(56,446)	69,945
<b>Information from the Consolidated Balance Sheet</b>				
Cash equivalents and short term investments	87,952	65,503	87,952	65,503
Working Capital (deficiency)	118,776	(253,893)	118,776	(253,893)
Total Assets	122,553	69,425	122,553	69,425
Long term debt, including current portion	Nil	Nil	Nil	Nil
Total liabilities	911	320,358	911	320,358
Shareholder's equity (Deficiency)	121,642	(250,933)	121,642	(250,933)

## Operating Results

### Revenues

Revenues for the second quarter ended January 31, 2012 were \$30,690 compared to \$124,110 for the corresponding period last year. Revenues are derived from HDRG sampling surveys that are undertaken for oil and gas explorers

Over the last number of years Digger has focused its efforts on developing oil and gas targets through related company Green Dragon that could be drill-tested in the short term solely on the basis of HDRG generated anomalies and the development of a second generation HDRG leach that had the capacity to distinguish between multiple zones and single zones of hydrocarbon potential. This strategy in 2009 and into 2010 resulted in minimal revenues because of the decision by Digger to limit the marketing of HDRG surveys to third party oil and gas explorers whilst trying to validate HDRG through the drill bit via Green Dragon’s drilling program at Suffield in Saskatchewan. In 2010 / 2011 and into 2012 presentations were made to junior oil & gas explorers with a view to opening up the use of HDRG to third party oil and gas operators. An HDRG orientation survey for a fully integrated international petroleum company was completed in November 2011. The HDRG orientation survey consisted of 198 samples and will result in net revenues to Digger of CDN \$30,690. The goal of this HDRG survey was to template oil and gas accumulations in the area to see if there was a significant geochemical signal at surface that matched the subsurface hydrocarbon distribution. It is anticipated by Digger’s management that there will be significant follow-up HDRG sampling programs.

### Operating Expenses

For the second quarter of the 2012 fiscal year, ended January 31, 2012, expenses amounted to \$22,641 compared to \$36,686 for the corresponding period last year as set out hereunder:

	Q2 Fiscal 2012	Q2 Fiscal 2011
	\$	\$
EXPENSES		
Stock based compensation costs	-	-
Laboratory analysis	-	26,794
License fees	-	-
Office and administrative	6,107	8,592
Professional fees	16,295	323
Depreciation and Amortization	239	977
	<u>22,641</u>	<u>36,686</u>

Office and administrative expenses and professional fees consisted of costs of general administrative expenses and costs related to operating as a publicly traded company. The increase in professional fees is for work in connection with IFRS conversion.

### Net Income and Comprehensive Income

For the six-month period ended January 31, 2012, net income and comprehensive income amounted to \$22,363 (\$0.002 per share) compared to \$83,962 (\$0.009 per share) for the same six-month period last year.

### Liquidity and Capital Resources

As at January 31, 2012 total assets amounted to \$122,553 as compared to \$69,425 as at January 31, 2011. Working capital stood at \$118,776 as at January 31, 2012 compared with a deficiency of (\$253,893) as at January 31, 2011. Cash and cash equivalents totaled \$87,952 as at January 31, 2012 compared with \$65,503 as at January 31, 2011.

To ensure the continuity of its operations, the Company will have to secure future HDRG sampling contracts, financing and related party funding. There can be no assurance that Digger will be successful in its financing efforts or in securing future HDRG sampling contracts. The Company’s liquidity objective is to maintain the capacity to fund development of and market its technology and repay liabilities in a timely and cost-effective manner.

Digger closed a non-brokered private placement in August 2011 by issuing 2,000,000 common share units at a price of CDN \$0.20 per unit for gross proceeds of CD \$400,000. Each unit consisted of one common share of Digger and one common share purchase warrant, each warrant entitling the holder to purchase one common share of Digger at an exercise price of CDN \$0.26 per share until August 12, 2012. The net proceeds from the private placement were / will be used by the Company for general working capital purposes, to enhance the Company’s marketing efforts of its HDRG technology and to pay its debts.

### Quarterly Operating Data

Operating results for each of the past eight quarters are presented in the table below. The Company adopted IFRS on August 1, 2011 with an effective application date of August 1, 2010. This means that comparative figures of the 2012 and 2011 fiscal year are presented in accordance to IFRS while 2010 figures are presented in accordance to Canadian Generally Accounting Principles (Canadian GAAP). Our unaudited quarterly consolidated financial statements have not been reviewed by our independent auditors.

	2012	2011			2010			
	Q2(IFRS)	Q1(IFRS)	Q4(IFRS)	Q3(IFRS)	Q2(IFRS)	Q1(IFRS)	Q4(GAAP)	Q3(GAAP)
Revenues	30,690	20,982	690		124,110			
Net Income(loss) and comprehensive results	8,049	14,314	(43,003)	(6,785)	87,424	(3,462)	(40,780)	(5,643)
Per share – basic and diluted	0.001	0.001	(0.004)	(0.001)	(0.009)	(0.001)	(0.004)	(0.001)
Weighted average number of common shares outstanding	10,552,610	9,658,989	9,349,035	9,349,035	9,349,035	9,349,035	9,349,035	9,349,035

This MD&A presents financial information by fiscal quarters.

#### Assets and Liabilities

Current assets increased \$9,199 to \$119,687 in Q2 2012 compared to an increase of \$6,572 in Q2 2011.

Current liabilities increased by \$911 compared to a decrease of \$81,829 in Q2 2011.

#### Liquidity and Capital Resources

During the period working capital increased to \$118,776 compared to (\$250,073) in Q2 2011, primarily due to the closing of a non-brokered private placement.

#### Cash Flow

The Company’s cash flow position increased to \$87,952 in Q2 2012 compared to \$65,503 in Q2 2011.

### **Account Receivables**

Historically the Company has not had material issues with respect to the collections of receivables. As the Company grows, management will standardize the credit policies and manage the increased activity.

### **Insurance and Risk Management**

Digger attempts to minimize and transfer risk wherever possible. Where appropriate, the Company adopts the policy of insuring its risks.

### **Products and Technologies**

Digger provides a proprietary HDRG extractant solution to an ALS analytical laboratory that can be applied to soil samples to release elements absorbed to the soils. These absorbed elements are the keys to better locate of oil and gas deposits. Using the HDRG proprietary Leachant, Digger routinely defines 21 species / elements that can be simultaneously anomalous over oil and gas pools; the result is a strong multi-element surface geochemical anomaly developed over hydrocarbon accumulations. The ability to detect coincident, multi species anomalies with very high ‘signal to noise’ ratios that are reproducible over time, places HDRG in a unique position as an exciting exploration tool for new oil and gas reserves. Digger will continue to seek to develop and exploit its proprietary HDRG technology.

### **Related Party Transactions**

Advances from affiliated companies in the amount of \$Nil (January 31, 2011 - \$308,335) are non-interest bearing and are owing to companies owned by a Director of Digger, who have indicated that these amounts will not be paid in the next twelve months unless additional funding is realized through HDRG sampling surveys or a financing. Revenue includes sales of Nil (January 31, 2011 – \$Nil) to a company controlled by a director of Digger.

### **Measures Not in Accordance With Generally Accepted Accounting Principles**

EBITDA (Earnings Before Interest, Income Taxes, Depreciation and Amortization is an indirect measure for operating cash flow, a significant indicator of the success of any business. Management believes EBITA to be an important measure as it excludes the effects of items, which primarily reflect the impact of long-term investment decisions, rather than the performance of the Company’s day-to-day operations.

EBITDA was \$38,267 for the year ending July 31, 2011 compared to a loss (\$46,795) in the year ending July 31, 2010.

### **Contractual Obligation**

Effective October 5, 2010 ALS granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. Digger is obliged pay to ALS an ongoing licensing fee of AUD \$10 per sample analyzed for exclusivity of use for the leachant and to use ALS as its sole analytical service provider. The term of the agreement with ALS is for three years with two renewable terms thereafter of five years each based on successful achievement of performance objectives as follows:

- a) In the last full year of the first three year license term no less than 5,000 samples are delivered by Digger to ALS for analysis using a partial leach analytical technique;
- b) In the last full year of the first five year renewal period no less than 20,000 samples are delivered by Digger to ALS for analysis using a partial leach analytical technique.

Effective June 24, 2011 the agreement with ALS was amended pursuant to an addendum which provides that for HDRG work that is sourced in the Arabian Peninsula that ALS Arabia, a joint venture between ALS and Maamel (a Saudi Corporation), will serve as the prime contractor for work in the Arabian Peninsula and Digger will serve as its subcontractor.

### **Off Balance Sheet Arrangements**

The Company has not entered into any off balance sheet arrangements.

### **Subsequent Events**

There are no subsequent events to report.

### **Proposed Transactions**

As at January 31, 2012, the Company did not have any proposed transactions.

### **Disclosure Controls And Procedures And Internal Control Over Financial Reporting**

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Company’s financial reporting and the preparation of its consolidated financial statements in accordance to IFRS.

No changes to internal controls over financial reporting have come to the attention of the Corporation’s management during the three-month period ended January 31, 2012, that have materially adversely affected, or are reasonably likely to materially adversely affect these internal controls.

### **Shareholder’s Deficiency and Outstanding Share Data**

As at January 31, 2012 Digger had a shareholder’s equity of \$121,642 compared with a

shareholder’s deficiency of (\$250,933) at January 31, 2011.

The Company’s common shares trade on the NEX board of the TSX Venture Exchange (DIG.H) and as at January 31, 2012 the Company had 11,349,035 (11,349,035 at March 15, 2012) fully issued and outstanding common shares.

The following common share stock options and share purchase warrants are issued and outstanding:

- As at January 31, 2012, a total of 150,000 common share stock options (150,000 at March 15, 2012) were granted and outstanding to directors and officers under the Company’s Share Option Plan with an exercise price of \$0.40 per share and with an expiration date of August 1, 2012.
- As at January 31, 2012 a total of 2,000,000 share purchase warrants (2,000,000 at March 15, 2011), each warrant entitling the holder to purchase one common share of Digger at an exercise price of CDN \$0.26 per share until August 12, 2012, were outstanding.

### Investor Relations Activities

The Company did not engage any outside consultants to provide investor relations activities for the six months ended January 31, 2012.

### Recent Accounting Developments

The Company adopted IFRS on August 1, 2011. The financial data regarding the fiscal year ended July 31, 2011 has accordingly been restated. The adoption of IFRS has not had a material impact on the Corporation’s operations, strategic decisions or internal controls. The Company is obligated to apply the IFRS standards retrospectively to establish the IFRS opening balance sheet as at August 1, 2010. However, IFRS offers a number of mandatory exceptions and optional exemptions with respect to these general guidelines of retrospective application (refer to note 17 of the unaudited interim condensed consolidated financial statements for the first quarter ended October 31, 2011 for further details on the Company’s choices in regards to the exemptions and adjustments resulting from the transition to IFRS).

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

#### Cumulative translation differences

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, would require the Company to calculate currency translation differences retrospectively, from the date a subsidiary or associate was formed or acquired. IFRS 1 provides the option of resetting cumulative translations gains and losses to zero at the transition date. The Company elected to reset cumulative translations losses to zero through opening cumulative deficit at the transition date.

#### Share-based payments

The Company has elected to not apply IFRS 2 *Share-based payments* retrospectively to share-based payments that have fully vested at the transition date and therefore no transitional adjustment is required. The Company had no settled share-based payments that had not vested and as such at transition an insignificant amount was recognized at the date of transition.

### Business combinations

The application of IFRS 3, *Business Combinations* (“IFRS 3”), requires the restatement of all past business combinations in accordance with IFRS 3. IFRS 1 provides the option to apply IFRS 3 prospectively from the transition date, or from a particular pre-transition date elected by the Company. The Company elected to not restate any past business combinations and to apply IFRS 3 prospectively from the transition date. Any goodwill arising on such business combinations that occurred before the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying the exemption. As a condition under IFRS of applying this exemption, goodwill relating to business combinations occurred prior to August 1, 2010 was tested for impairment even though no impairment indicators were present. No impairment existed at the date of transition.

### Future Accounting Pronouncements

At the date of authorization of the consolidated interim financial statements, the IASB and IFRIC have issued certain new and revised Standards and Interpretations that are not yet effective for the relevant reporting periods. On November 12, 2009, the IASB issued IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. As at January 1, 2013, Digger will be required to adopt IFRS 9. IFRS 9 introduces a new classification and measurement regime for financial assets within its scope. Digger does not expect the adoption of this standard to impact the Company significantly.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: amended Disclosures – Transfers of Financial Assets (IFRS 7), Consolidated Financial Statements (IFRS 10), Joint Arrangements (IFRS 11), Disclosure of Interests in Other Entities (IFRS 12), amended IAS 12 Deferred Tax: Recovery of Underlying Assets, Separate Financial Statements (IAS 27), Fair Value Measurement (IFRS 13) and amended IAS 28 Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

## **Significant Accounting Policies**

The Company’s consolidated financial statements for the period ended January 31, 2012 have been prepared in accordance with IAS 34 using accounting policies consistent with IFRS issued by the IASB and interpretations of IFRIC. The Company’s accounting policies are described in Note 5 in the unaudited quarterly interim financial statements for the period January 31, 2012.

Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Significant areas requiring the use of management estimates include, but are not limited to, the valuation of share-based compensation transactions, the valuation of purchase warrants issued on financings, deferred income tax assets and liabilities and accrued liabilities and contingencies. The uncertainties related to these areas could significantly impact the Company’s results of operations, financial condition and cash flows.

### Going Concern Uncertainty

The consolidated interim financial statements have been prepared in accordance with

International Accounting Standards (“IAS”) 34 Interim Financial Reporting and IFRS I, first time adoption of International Reporting Standards that are applicable to a going concern. However, the use of such principles may not be appropriate because there is a significant doubt surrounding the ability of the Company to continue as a going concern.

The Company is still looking for external markets for its HDRG technology. In fiscal year 2011, the Company completed projects using its HDRG technology, which resulted in revenue of \$124,800 (2010 - \$10,000), of which \$nil (2010 - \$10,000) was received from a related party. Management is confident that 2012 will see advancement in the use of HDRG technology and that Digger will be able to raise funds through increased HDRG surveys on a fee for service basis and obtain additional equity financing to further develop and market its HDRG technology to vendors.

While there can be no assurance that these initiatives will be successful, management believes that future contracts and management and related party funding will contribute adequate cash flow. These financial statements do not reflect any adjustments to the carrying value of assets, liabilities and reported revenue and expenses that might be necessary should the Company be unable to generate the necessary capital and continue as a going concern. Such adjustments may be material.

The materialization of any of the following risks may have an impact on the activities of the Company and a negative impact on its financial position and operating results. In that event, the price of the Company’s common shares may decrease.

#### Additional Financing

To the extent that external sources of capital, including the issuance of additional Common Shares become limited or unavailable the Company’s ability to make necessary capital investments to maintain and develop its HDRG technology and meet its obligations will be impaired. Digger closed a non-brokered private placement in August 2011 by issuing 2,000,000 common share units at a price of CDN \$0.20 per unit for gross proceeds of CD \$400,000. Each unit consists of one common share of Digger and one common share purchase warrant, each warrant entitling the holder to purchase one common share of Digger at an exercise price of CDN \$0.26 per share until August 12, 2012. The net proceeds from the private placement will be used by the Company for general working capital purposes, to enhance the Company’s marketing efforts of its HDRG technology and to pay its debts.

#### Competing Technologies

The market for Digger’s HDRG technology is still emerging and growth and demand for, and acceptance of HDRG by oil and gas explorers remains uncertain. In addition, other emerging technologies may impact the viability of the market for HDRG. Digger’s success will depend on its ability to keep pace with technological and marketplace change and to introduce, on a timely and cost effective basis HDRG surveys that will satisfy potential customer requirements and achieve market acceptance.

#### Dependence on Key Personnel

The Company has a small management team and the loss of a key individual or the inability to attract qualified personnel in the future could materially and adversely affect Digger’s business.

#### Strategic Alliances

The rapid deployment of the Company’s technology and its future growth depend in part on its ability to develop profitable strategic alliances. Failure by Digger to develop such strategic

alliances could adversely affect its business activities, revenues, financial position and operating results.

#### Distribution Network

Growth in Digger’s business depends in large part on its ability to develop well targeted marketing and distribution channels, increase its number of points of sale and attract new customers in both North America and worldwide. Failure by the Company to do so could adversely affect its business activities, revenues, financial position and operating results.

#### Future income taxes

The company uses the asset and liability method of recording income taxes. This method recognizes the future income tax inflows and outflows that will result whenever the carrying amount of an asset or liability is recovered or settled.

#### Stock-based compensation plan

Options granted under the share option plan are accounted for using the fair-value method. Under this method, the fair-value of stock options granted is measured at estimated fair-value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

#### Purchase Warrants

The fair value of purchase warrants, issued in conjunction with common share financings, is measured at date of issue using the Black Scholes valuation model and recognized as a decrease in capital stock and an increase in contributed surplus on the Consolidated Statement of Financial Position. The initial fair value of the purchase warrants is subsequently revalued each reporting date using current assumptions in the Black Scholes valuation model, with any change reported recognized as an adjustment in capital stock and contributed surplus on the Consolidated Statement of Financial Position.

#### Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

### **Financial Instruments And Other Instruments**

The Company’s financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company’s objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company’s consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall exploration and development strategy, diversifying risk, mitigation through preventive controls, and transferring risk to third parties.

#### Fair Value

The carrying values for primary financial instruments, including Cash and equivalents, Other receivables, and Accounts payable and accrued liabilities approximate fair values due to their short-term maturities. The Company’s exposure to potential loss from financial instruments relates primarily to its cash and equivalents held with Canadian financial institutions.

There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the period. The objectives and strategy for the exploration and evaluation asset portfolio remains unchanged.

The Company’s activities expose it to the following financial risks:

#### Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company’s exposure to credit risk is concentrated in two specific areas: the credit risk on operating balances including Other receivables, primarily comprised of GST recoverable, and Cash and equivalents held with Canadian financial institutions. The maximum exposure to credit risk is equal to the carrying values of these financial assets.

The aggregate gross credit risk exposure at January 31, 2012 was \$119,687 (July 31, 2011 - \$60,066), and was comprised of \$31,735 (July 31, 2011 - \$133) in Other receivables primarily comprised of \$30,690 of trade receivables and \$1,045 of GST recoverable, and \$87,952 (July 31, 2011 - \$59,933) in Cash and equivalents held with Canadian financial institutions with a “AA” credit rating.

#### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign currency exchange rates, interest rates and liquidity. A discussion of the Company’s primary market risk exposures, and how those exposures are currently managed, follows:

##### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company’s financial assets and liabilities and operating costs are principally denominated in Canadian dollars.

##### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company’s interest rate risk is minimal as there are no outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

##### Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and working capital obligations as they become due. To manage cash flow requirements, the Company maintains principally all its assets in cash and equivalents.

#### Sensitivity Analysis

The Company believes that the movements in investments held for trading that are reasonably

possible over the next twelve-month period will not have a significant impact on the Company. The Company believes that its cash position and short-term investments provide adequate liquidity to meet all of the Company’s near-term obligations.

#### Disclaimer

The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. It should be read in conjunction and in context with all other disclosure documents of the Company. The information contained herein is not a substitute for detailed investigation for analysis on any particular issue. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented.