



**DIGGER RESOURCES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**NINE MONTHS ENDED APRIL 30, 2011 AND 2010**

**[June 20, 2011]**

## DIGGER RESOURCES INC.

### MANAGEMENT DISCUSSION AND ANALYSIS THIRD QUARTER ENDED APRIL 30, 2011

The Management Discussion and Analysis (“MD&A”) is intended to provide the reader with a better understanding of the activities of Digger Resources Inc. (“DIG” or the “Company”) and its key financial results. In particular, it explains changes in the Company’s financial position and operating results for the third quarter and nine (9) month period ended April 30, 2011 by comparing them with the results for corresponding period of the previous year. The MD&A has been prepared in accordance with National Instrument 51 – 102, Continuous Disclosure Obligations, and should be read in conjunction with the unaudited consolidated financial statements and notes thereto for the same period and the audited consolidated financial statements for the year ended July 31, 2010. The MD&A was prepared as at June 20, 2011 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). DIG’s consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting practices (“GAAP”).

The unaudited 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 of the amounts in this MD&A are in Canadian dollars.

The Company’s independent auditors have not performed a review of these 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 DIG’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.

### Company Profile

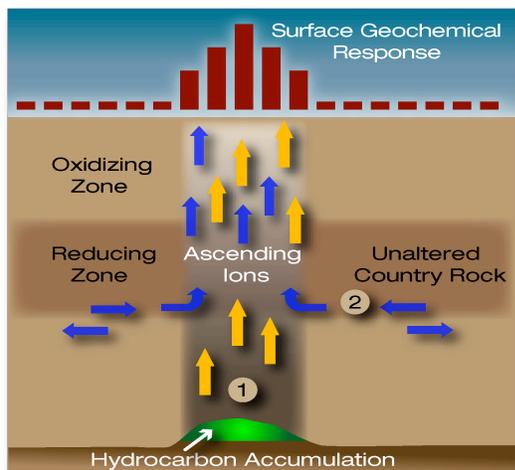
The Company’s principal business activity is, through the application of its High Definition Reservoir Geochemistry (“HDRG”) technology, the development of an effective exploration technique as an adjunct to existing seismic methods and to assist in the environmentally sound discovery and development 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 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 kilometres. 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 DIG 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 used by DIG 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. DIG’s HDRG leachant meet these criteria particularly well.

The HDRG anomaly is derived from two sources, namely 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 DIG can give both higher resolution and better definition thus presenting a more focused geochemical expression of oil and gas pools. Over the last ten (10) plus years DIG 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 4-13-14-19W3M (“4-13”) and the 3-1-14-19W3M Green Dragon Investment Ltd. (“Green Dragon”) wells drilled in southwestern Saskatchewan on the basis of an HDRG geochemical anomaly.



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 DIG’s management considers the full market opportunity for HDRG to be suitable for all oil and gas explorers, DIG focused on developing oil and gas targets through related company Green Dragon, Green Dragon’s sole director is the wife of a DIG 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 DIG’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 2010 presentations were made to junior oil & gas explorers with a view to opening up the use of HDRG to third party oil and gas explorers. DIG secured a HDRG sampling contract with a third party oil and gas operator in September 2010 that was completed in November 2010. Follow-up HDRG sampling contracts are in the works. DIG’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 CAD \$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. HDRG should prove to be a very valuable and accepted exploration tool for oil and gas explorers.

The rapid deployment of the Company’s technology and its future growth depends in part on its ability to develop profitable strategic alliances. The just announced agreement with the ALS

Laboratory Group (“ALS”) should go a long way in the further development of HDRG and the marketing of that technology. ALS is an internationally diversified testing services organization employing over 6000 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 DIG 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, DIG believes that all of its business will eventually experience sustained growth. A HDRG survey for a third party oil and gas operator, with land holdings in the U.S.A. and Australia, was completed on November 5, 2010. The HDRG survey consisted of 589 samples and resulted in gross revenues to DIG of CAD \$117,800. A follow-up infill sample job involving 130 samples was not completed because of a cyclone. It is anticipated that this follow-up sampling job will be completed as soon as surface conditions permit.

Related parties have advanced funds to the Company on an unsecured basis thereby ensuring that DIG is able meet existing operating costs and commitments. These unsecured advances are non-interest bearing and will not be paid in the next 12 months unless additional funding is realized through HDRG sampling surveys or a financing.

### Third Quarter Highlights

As earlier reported effective October 5, 2010 ALS granted to DIG an exclusive non-assignable right to market a proprietary ALS partial extraction leachant (the “Leachant”) that will be used by DIG 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 DIG to develop and adjust the formulation of the Leachant product through the course of the license to best suit the needs of DIG’s clients. The term of the agreement with ALS is for three years with two renewable terms of five years each.

ALS has introduced DIG and 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 will consist of 200 samples and will, assuming that all of the samples collected are analyzed, result in gross revenues to DIG of AUD \$45,000. It is estimated that the samples will be collected and analyzed in July / August 2011. In order to effectively evaluate the potential offered by HDRG an orientation survey over both dry and oil filled structures is planned. The goal of this HDRG survey is to template oil and gas accumulations in the area to see if there is a significant geochemical signal at surface that matches the subsurface hydrocarbon distribution. If the HDRG survey matches the subsurface hydrocarbon distribution it is anticipated that there will be significant follow-up HDRG sampling programs. The orientation survey will be subject to a rigorous chain of custody set of procedures thus ensuring that there is no way in which DIG could interfere or tamper with the collection, shipping, analysis or interpretation of the results from this study.

As earlier reported an HDRG survey for a third party oil and gas operator, with land holdings in the U.S.A. and Australia, was completed on November 5, 2010. The HDRG survey consisted of 589 samples and resulted in gross revenues to DIG of CAD \$117,800. Several targets were identified as a result of the HDRG survey. DIG has been advised by the third party oil and gas operator that these targets will be drill tested in the not too distant future.

DIG maintains an active research and development program in conjunction with Green Dragon’s 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.

### Financial Data

The following table includes selected financial data for the third quarter and nine-month period ended April 30, 2011 and 2010.

Period ended April 30	Third Quarter		Nine-month period	
Information from the Consolidated Statements of Operations and Deficit	2011	2010	2011	2010
Revenues	-	-	124,110	10,000
Net Income (Loss) and comprehensive loss	(6,785)	(5,643)	77,177	(10,187)
Loss per share – basic and diluted	(0.001)	(0.001)	0.008	(0.001)
Information from the Consolidated Statements of Cash Flows				
Cash flows relating to operating activities	(3,333)	(5,885)	66,612	(29,228)
Information from the Consolidated Balance Sheet				
Cash equivalents and short term investments	1,108	462	1,108	462
Working Capital deficiency	(259,701)	(300,072)	(259,701)	(300,072)
Total Assets	3,486	7,667	3,486	7,667
Long term debt, including current portion	Nil	Nil	Nil	Nil
Total liabilities	261,204	301,782	261,204	31,782
Shareholder’s equity (Deficiency)	(257,718)	(294,115)	(257,718)	(294,115)

## Operating Results

### Revenues

Revenues for the third quarter ended April 30, 2011 were \$Nil compared to \$Nil 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 DIG 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 DIG 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 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 survey was awarded to DIG in September 2010 by a third party oil and gas operator in an area where compromised surface access because indigenous land ownership and environmental issues and restrictions now render seismic surveys difficult, expensive and often inappropriate at an early stage of assessment.

DIG’s management is confident that DIG’s strategy and initiatives in regards to the development of HDRG will favourably impact DIG’s future growth and revenues.

### Operating Expenses

For the third quarter of the 2011 fiscal year, ended April 30, 2011, expenses amounted to \$6,785 compared to \$5,643 for the corresponding period last year as set out hereunder:

	Q3 Fiscal 2011	Q3 Fiscal 2010
	\$	\$
EXPENSES		
Stock based compensation costs	-	-
Laboratory analysis	-	725
License fees	-	-
Office and administrative	1,754	2,903
Professional fees	454	972
Depreciation and Amortization	977	1,043
	<u>6,785</u>	<u>5,643</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.

### Net Loss and Comprehensive Loss

For the nine (9) month period ended April 30, 2011, net income and comprehensive income amounted to \$77,177 (\$0.008 per share) compared to a loss of \$10,187 (\$0.001 per share) for the same nine (9) month period last year.

### Liquidity and Capital Resources

DIG has sustained losses in the year ended July 31, 2010 and prior years therefore a going concern note is included in the unaudited interim consolidated financial statements. While this MD&A and the unaudited interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles, certain adverse conditions and events cast significant doubt on the validity of this assumption. 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 DIG 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. DIG will use its best efforts to secure a private placement in the upcoming quarter.

Related parties have advanced funds to the Company on an unsecured basis thereby ensuring that DIG is able meet existing operating costs and commitments. These unsecured advances are non-interest bearing and will not be paid in the next 12 months unless additional funding is realized through HDRG sampling surveys or a financing. The Company has no material capital expenditure commitments for Q3 Fiscal 2011.

### Quarterly Operating Data

Operating results for each of the past eight (8) quarters are presented below. In our opinion, the data pertaining to these quarters have been prepared in the same manner as that of the audited consolidated financial statements for the fiscal year ended July 31, 2010. DIG’s unaudited quarterly consolidated financial statements have not been reviewed by its external auditors.

	2011		2010		2009			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues		124,110				10,000		
Net loss and comprehensive results	(6,785)	87,424	(3,462)	(40,780)	(5,643)	(1,972)	(2,572)	(177,576)
Per share – basic and diluted	(0.001)	0.009	(0.001)	(0.004)	(0.001)	(0.001)	(0.001)	(0.018)
Weighted average number of common shares outstanding	9,349,035	9,349,035	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.

### 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**

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

### **Products and Technologies**

DIG 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, DIG routinely defines 21 species / elements that can be simultaneously anomalous over oil & 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 & gas reserves. DIG will continue to seek to develop and exploit its proprietary HDRG technology.

### **Related Party Transactions**

Advances from affiliated companies in the amount of \$247,273 (April 30, 2010 - \$296,459) are non-interest bearing and are owing to companies owned by a Director of DIG, 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 (2010 – \$10,000) to a company controlled by a director of DIG.

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

The following measure included in this report does not have a standardized meaning under Canadian generally accepted accounting principles and, therefore, is unlikely to be comparable to similar measures presented by other companies:

EBITDA (Earnings Before Interest, Income Taxes, Depreciation and Amortization), while not a concept recognized by generally accepted accounting principles, 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 a loss (\$46,795) for the year ending July 31, 2010 compared to a loss (\$187,343) in the year ending July 31, 2009. The decrease in loss is due primarily to stock based compensation costs required to be reported in the year in the amount of \$Nil (2009-\$156,786) and the decision by the Company to limit HDRG surveys to third parties and concentrate instead on developing HDRG generated targets that will be drill tested in the short term and the results there from put into the public domain. In October 2010 the Company began to conduct an HDRG survey for a third party oil and gas explorer that was completed in November 2010. Follow-up HDRG sampling surveys are anticipated.

### **Contractual Obligation**

Under the term of an agreement made by DIG with Wamtech Pty (“Wamtech”), Wamtech granted to the Company an exclusive license for the use and development of Wamtech’s proprietary MMI

leachants for use in the exploration for hydrocarbons. The term of the agreement is for 30 years and during this term DIG is obligated to pay to Wamtech a license fee of AUD \$10 per sample for use of and the exclusivity of its leachants. DIG has committed to a minimum payment of AUD \$10,000 per year in licensing fees to Wamtech. Subject only to making the royalty payments DIG acquired for its own use an benefit absolutely an undivided one hundred percent (100%) legal, beneficial registerable interest in and to any MMI application to the oil and gas industry. To date DIG has paid to Wamtech and its successor SGS approximately AUD \$120,000 to July 31, 2009. In 2010 the validity of this licensing agreement has been disputed by the successor to Wamtech. Future minimum payments for each of the next fiscal years under the Company’s agreement with Wamtech are as follows:

2011	\$9,320
2012	\$9,320
2013	\$9,320
2014	\$9,320
2015	\$9,320
2016 - 2030	\$130,480

#### 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 April 30, 2011, the Company did not have any proposed transactions excepting the completion of a sample job for a third party oil and gas explorer.

#### Management Certifications – Internal Control Over Financial Reporting

Recent changes in securities laws no longer require the CEO and CFO of TSX Venture Exchange listed companies to certify they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Instead, an optional form of certification has been made available to TSX Venture Exchange listed companies and has been used by DIG’s certifying officers for the April 30, 2011 filings. The new certification reflects what the Company considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Company’s operations. This certification requires that the certifying officers state:

- i) they have reviewed the annual MD&A and financial statements;
- ii) they have determine there is no untrue statement of a material fact, or any omission of material fact required to be stated which would make any statement not misleading in light of the circumstances under which it was made within the interim MD&A and financial statements;
- iii) that based upon their knowledge, the annual filings, together with the other financial information included in the annual filings, fairly present in all material

respects the financial condition, results of operations and cash flows of the Company as of the date and for the periods presented in the filings.

For purposes of this certification, management believes fair presentation in accordance with Canadian GAAP constitutes fair presentation under securities laws.

### **Financial Instruments and Other Instruments**

The carrying values of the Company’s financial instruments, consisting of cash, amounts receivable, accounts payable and accrued liabilities, approximate their fair value due to the short-term maturity of such investments. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Advances from affiliated companies in the amount of \$247,273 (April 30, 2010 - \$296,459) are non-interest bearing and are owing to companies owned by a Director of DIG, who have indicated that these amounts will not be paid in the next twelve months unless additional funding additional funding is realized through HDRG sampling surveys or a financing.

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

As at April 30, 2011, DIG had a shareholder’s deficiency of (\$257,718).

The Company’s common shares trade on the NEX board of the TSX Venture Exchange (DIG.H) and as at April 30, 2011 the Company had 9,349,035 (9,349,035 at June 20, 2011) fully issued and outstanding common shares.

The following common share stock options are issued and outstanding:

- As at April 30, 2011, a total of 150,000 common stock options 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 expiration dates in 2012. At the 2008 Annual General Meeting of the Company shareholders passed an ordinary resolution approving the re-pricing of all of these stock options so that they become exercisable at \$0.40 per share.
- As at June 20, 2011 a total of 150,000 common stock options 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 expiration dates in 2012.

### **Investor Relations Activities**

The Company did not engage any outside consultants to provide investor relations activities for the nine (9) months ended April 30, 2011. All investor relation activities are conducted by Company personnel.

### **Significant Accounting Policies**

#### Critical Accounting Policies and Estimates

The Company’s consolidated financial statements are prepared in conformity with Canadian Generally Accepted Accounting Principles (“GAAP”). The Company’s accounting policies are

described in a note in the unaudited quarterly interim financial statements. Generally accepted accounting principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Areas of significance requiring the use of management estimates related to the determination of stock based compensation and the determination of future income tax assets and liabilities. Actual amounts could differ from those estimates.

#### Going Concern Uncertainty

DIG has sustained losses in prior years therefore a going concern note 1 is included in the financial statements. While these financial statements have been prepared on a going concern basis certain adverse conditions and events cast doubt on the validity of this assumption as detailed hereunder:

#### 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.

#### Competing Technologies

The market for DIG’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. DIG’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 DIG’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 DIG to develop such strategic alliances could adversely affect its business activities, revenues, financial position and operating results.

#### Distribution Network

Growth in DIG’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.

#### Technology Purchase Agreement, Wamtech Letter Agreement and Intellectual Property

The Company’s technology purchase agreement with GRC and letter agreement with Wamtech, they provide exclusivity and ownership to DIG of the HDRG MMI-H leach and MMI Technology’s global application to hydrocarbon exploration of its metallic/non-metallic ion deep penetrating geochemistry program, could be incomplete, invalid, circumvented, or contested. Legal proceedings may prove necessary to enforce DIG’s contractual and intellectual rights. Such litigation could entail significant costs, with no assurance of a successful outcome. This could adversely affect DIG’s business activities, revenues, financial position and operating results.

### Revenue Recognition

The Company generates revenues primarily from its HDRG sampling programs.

The Company recognized revenues when HDRG sampling has been completed, the samples have been analyzed and after DIG has provided 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 PSI provided that there is an agreement between the parties, the amount of the transaction is fixed or determinable and collection is reasonably assured.

### Stock Option Plan

Compensation expense for options granted under the stock based compensation plan is recognized when stock options are granted to officers and directors. Such stock-based compensation expense is determined under the fair value method using the Black and Scholes option pricing model. The fair value of options is amortized over their vesting period. Any consideration paid on exercise of stock options together with the related portion previously credited to contributed surplus is credited to share capital.

### 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.

### International Financial Reporting Standards (“IFRS”)

In February 2008, Canada’s Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged to IFRS as issued by the *International Accounting Standards Board (“IASB”)*. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. As part of the IFRS conversion project, the Chief Executive Officer and the Chief Financial Officer are responsible for the implementation and will engage an external expert advisor to assist. Regular progress reporting to senior management and to the Audit Committee on the status of the IFRS conversion project has been established.

First reporting under IFRS is required for the Company’s interim and annual financial statements beginning on August 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its financial year 2010 Annual Report.

There have been no significant changes to our IFRS changeover plan and our project is

progressing according to plan. While we have not yet fully completed our conversion plan, we are not aware, at this present time, of any matter that would prevent the Company from meeting its filing requirements for its first IFRS interim consolidated financial report.

Differences in accounting policies adopted on and after transition to IFRS, with respect to the recognition, measurement, presentation and disclosure of financial information, along with the related financial statements impacts, are expected to be in the following key accounting areas:

Key Accounting Areas	Differences with Potential Impact for the Company
Presentation of Financial Statements (IAS 1)	· Format variations and additional disclosures in notes to financial statements are required under IFRS.
Income Taxes (IAS 12)	· Recognition and measurement criteria for deferred tax assets and liabilities may differ.
Share-based Payment (IFRS 2)	· When vesting occurs over multiple periods, each installment is accounted for as a separate arrangement.
	· This difference is expected to increase liabilities and compensation costs on transition and in subsequent reporting periods.

Additionally, the Company is preparing a preliminary IFRS financial statement format in accordance with IAS 1, *Presentation of Financial Statements*, and is in the process of analyzing the contractual implications of the new policy choices on financing arrangements and similar obligations. The effects on information technology, data systems, and internal controls are also being analyzed; the Company does not expect that significant modifications will be necessary on conversion.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company’s consolidated financial statements can only be measured once all the applicable IFRS at the conversion date are known.

The Company’s IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development or in light of new information or other external factors that could arise from now until the changeover has been complete.

**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.