DIGGER RESOURCES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TWELVE MONTHS ENDED JULY 31, 2011 AND 2010

[October 26, 2011]

DIGGER RESOURCES INC.

MANAGEMENT DISCUSSION AND ANALYSIS
FOURTH QUARTER ENDED JULY 31, 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 fourth quarter and twelve (12) month period ended July 31, 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 audited consolidated financial statements for the year ended July 31, 2011, and the notes thereto. The MD&A was prepared as at October 26, 2011 and these documents, along with additional information about the Company, are available at www.diggerresources.com and www.sedar.com. DIG's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting practices ("GAAP").

The audited 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.

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.

President's Message to Shareholders

Dear Fellow Shareholders:

I'm pleased to report that improved profits and potential in 2010 / 2011 underscored Digger Resources Inc. ("Digger") investment thesis:

1. The rapid deployment of the Digger's High Definition Reservoir Geochemistry ("HDRG") technology and its future growth depends in part on its ability to develop profitable strategic alliances. The October 2010 licensing agreement with the ALS Laboratory Group ("ALS") will 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 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. ALS granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant that will be 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.

2. In 2010 / 2011 presentations were made to oil and gas explorers with a view to opening up the use of HDRG to third party oil and gas explorers. Digger secured a HDRG sampling contract with a third party oil and gas operator in September 2010 that was completed in November 2010. The HDRG survey consisted of 589 samples and resulted in gross revenues to Digger of approximately CDN $124,000. Several targets were identified as a result of the HDRG survey. An HDRG orientation survey for a fully integrated international petroleum company will be completed in November 2011. The HDRG orientation survey consisted of 200 samples and will result in net revenues to Digger of CDN $31,000. 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. If the HDRG survey matches the subsurface hydrocarbon distribution it is anticipated that there will be significant follow-up HDRG sampling programs.

3. Ensure that Digger is able meet its existing operating costs and commitments. In that regard Digger closed a non-brokered private placement financing in August 2011. The net proceeds from the private placement will be used by the Digger for general working capital purposes, to enhance its marketing efforts of HDRG technology to pay its debts and to graduate to a Tier 2 Technology Company on the TSX Venture Exchange.

In closing, I want to thank you for your interest and investment in Digger. We will have hits and misses in 2011 / 2012, but I think that our track record, the experience of our management and board of directors, our strong insider ownership and the untapped prospects of our proprietary HDRG technology make a great case for a year of growth and upside potential at Digger.

On behalf of the Board of Directors

Norman B. Yeo, B.A., LL.B.

President and Chief Executive Officer, October 26, 2011

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 is being 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 consisted of 200 samples and will result in net revenues to DIG of CDN $31,000. The samples were collected in October 2011 and will be analyzed in late October / early 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. If, in the view of the fully integrated international petroleum company, the HDRG survey matches the subsurface hydrocarbon distribution it is anticipated that there will be significant follow-up HDRG sampling programs.

DIG 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.

The Company closed a non-brokered private placement financing in August 2011 by issuing 2,000,000 common share units at a price of CDN $0.20 per unit for gross proceeds of CDN $400,000. Each unit consisted of one common share of DIG and one common share purchase warrant, each warrant entitling the holder to purchase one common share of DIG 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.

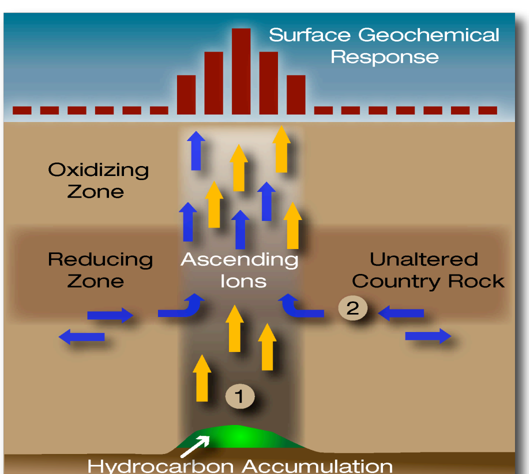
Company Profile

The Company's principal business activity is, through the application of its 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 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 / 2011 presentations were made to 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 presentations to oil and gas explorers are ongoing. 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 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 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.

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 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 completed the closing of a non-brokered private placement financing in August 2011 and the advanced funds were repaid by DIG.

Financial Data

The following table presents selected significant financial data for the current and previous fiscal year, for the most recent quarter and the corresponding period of the previous fiscal year. The following selected financial information has been prepared in accordance with generally accepted accounting principles in Canada and is presented in Canadian dollars.

Period ended July 31	**Fourth Quarter**		**Twelve-month period**	
Information from the Consolidated Statements of Operations and Deficit				
	2011	2010	2011	2010
Revenues	690	-	124,800	10,000
Net Income (Loss) and comprehensive loss	(43,003)	(40,780)	34,174	(50,967)
Loss per share – basic and diluted	(0.004)	(0.004)	0.004	(0.005)
Information from the Consolidated Statements of Cash Flows				
Cash flows relating to operating activities	(6,914)	(16,780)	59,698	(46,008)
Information from the Consolidated Balance Sheet				
Cash equivalents and short term investments	59,933	533	59,933	533
Working Capital deficiency	(301,542)	(339,809)	(301,542)	(339,809)
Total Assets	60,887	5,653	60,887	5,653
Long term debt, including current portion	Nil	Nil	Nil	Nil
Total liabilities	361,608	340,548	361,608	340,548
Shareholder's equity (Deficiency)	(300,721)	(334,895)	(300,721)	(334,895)

The following table includes selected financial data for the current and two previous fiscal years.

Selected Annual Information			
Information from the Consolidated Statements of Operations and Deficit			
	2011	2010	2009
Revenues	124,800	10,000	30,800
Net Income (Loss) and comprehensive loss	34,174	(50,967)	(191,643)
Loss per share – basic and diluted	0.004	(0.005)	(0.002)
Information from the Consolidated Statements of Cash Flows			
Cash flows relating to operating activities	59,698	(46,008)	(30,427)
Information from the Consolidated Balance Sheet			
Cash equivalents and short term investments	59,933	533	399
Working Capital deficiency	(301,542)	(339,809)	(293,014)
Total Assets	60,887	5,653	9,995
Long term debt, including current portion	Nil	Nil	Nil
Total liabilities	361,608	340,548	293,923
Shareholder's equity (Deficiency)	(300,721)	(334,895)	(283,928)

Operating Results

Revenues

Revenues for the fiscal year ended July 31, 2011 amounted to $124,800 compared with $10,000 in 2010 (the sales of $10,000 in 2010 was to a company controlled by a director of DIG). Revenues for the fourth quarter ended July 31, 2011 were $690 compared to $Nil for the corresponding period last year. Revenues for the most part 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 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 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. Other HDRG surveys are in the works.

Operating Expenses

For the fourth quarter of the 2011 fiscal year, ended July 31, 2011, expenses amounted to $43,693 compared to $40,780 for the corresponding period last year as set out hereunder:

	Q4 Fiscal 2011	Q4 Fiscal 2010	12 month period 2011	12 month period 2010
	$	$	$	$
EXPENSES				
Laboratory analysis	-	-	26,794	1,304
License fees	10,491	9,425	10,491	9,425
Office and administrative	4,425	2,531	17,137	13,331
Professional fees	27,615	27,781	32,111	32,735
Depreciation and Amortization	1,162	1,043	4,093	4,172
	43,693	40,780	90,626	60,967

Office and administrative expenses and professional fees consisted of costs of general administrative expenses and costs related to operating as a publicly traded company. For the twelve (12) month period ended July 31, 2011 expenses amounted to $90,626 compared with $60,967 for the twelve (12) month period ended July 31, 2010.

In connection with license fees it should be noted that 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 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. Whilst DIG no longer uses the MMI leachants in its HDRG process DIG is committed to a minimum payment of AUD $10,000 per year in licensing fees to Wamtech. The validity of this licensing agreement with Wamtech was disputed by the successor to Wamtech. As at July 31, 2011 DIG is of the view that the licensing agreement was an enforceable agreement.

Net Loss and Comprehensive Loss

For the fourth quarter of the 2011 fiscal year, net loss amounted to $43,003 ($0.004) loss per share) compared with a loss of $40,780 ($0.004 loss per share) for the fourth quarter of the 2010 fiscal year. For the twelve (12) month period ended July 31, 2011, net income and comprehensive income amounted to $34,174 ($0.004 per share) compared to a loss of $50,967 ($0.005 per share) for the same twelve (12) month period last year.

Liquidity, Capital Resources And Financing Sources

As at July 31, 2011 total assets amounted to $60,887 which compares to $5,653 as at July 31, 2010. Working capital deficiency stood at $301,542 as at July 31, 2011 compared with $339,809 as at July 31, 2010. Cash and cash equivalents totaled $59,933 as at July 31, 2011 compared with $533 as at July 31, 2010. The Company's liquidity objective is to maintain the capacity to fund development of and market its HDRG technology and repay liabilities in a timely and cost-effective manner.

DIG 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 DIG and one common share purchase warrant, each warrant entitling the holder to purchase one common share of DIG at an exercise price of CDN $0.26 per share until August 12, 2012. Deposits totaling $65,000 in connection with this non-brokered placement were received prior to July 31, 2011. 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.

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, 2011. DIG's unaudited quarterly consolidated financial statements have not been reviewed by its external auditors.

	2011				**2010**			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	690		124,110				10,000	
Net loss and comprehensive results	(43,003)	(6,785)	87,424	(3,462)	(40,780)	(5,643)	(1,972)	(2,572)
Per share – basic and diluted	(0.004)	(0.001)	(0.009)	(0.001)	(0.004)	(0.001)	(0.001)	(0.001)
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 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 and 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 $248,012 (July 31, 2010 - $313,310) 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. As at September 2011 these advances had been re-paid. Revenue includes sales of $Nil (2010 – $10,000) to a company controlled by a director of DIG. These sales are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

Contractual Obligation

Under the term of an agreement made by DIG with Wamtech, Wamtech granted to the Company an exclusive license for the use and development of Wamtech's 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. The validity of this licensing agreement has been disputed by the successor to Wamtech. In DIG's view as at July 31, 2011 the licensing agreement was an enforceable agreement. Future minimum payments for each of the next fiscal years under the Company's agreement with Wamtech are as follows:

2012	$10,491
2013	$10,491
2014	$10,491
2015	$10,491
2016	$10,491
2017 - 2030	$136,383

Effective October 5, 2010 ALS granted to DIG an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. DIG 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 DIG 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 DIG to ALS for analysis using a partial leach analytical technique.

Off Balance Sheet Arrangements

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

Subsequent Events

DIG 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 CDN $400,000. Each unit consists of one common share of DIG and one common share purchase warrant, each warrant entitling the holder to purchase one common share of DIG 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.

As at October 2, 2011, in the Company's view, the licensing agreement with Wamtech is no longer an enforceable agreement and as such a gain of AUD $20,000 will be realized by DIG and reported in the period ending October 31, 2011. DIG no longer uses Wamtech's MMI leachants in its HDRG technology.

Proposed Transactions

As at July 31, 2011, the Company did not have any proposed transactions.

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 July 31, 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 $248,012 (July 31, 2010 - $313,310) 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. As at September 2011 these advances had been re-paid.

Shareholder's Deficiency and Outstanding Share Data

As at July 31, 2011, DIG had a shareholder's deficiency of ($300,721) compared with a shareholder's deficiency of ($334,895) at July 31, 2010.

The Company's common shares trade on the NEX board of the TSX Venture Exchange (DIG.H) and as at July 31, 2011 the Company had 9,349,035 (11,349,035 at October 26, 2011) fully issued and outstanding common shares.

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

- As at July 31, 2011, a total of 150,000 common share 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.

- As at October 26, 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.

- As at October 26, 2011 a total of 2,000,000 share purchase warrants, each warrant entitling the holder to purchase one common share of DIG 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 twelve (12) months ended July 31, 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 annual 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.

Going Concern Uncertainty

DIG's financial statements have been prepared using generally accepted accounting principles that are applicable to a going concern. However, the use of such principles may not be appropriate because there is significant doubt surrounding the ability of the Company to continue as a going concern as the Company has a working capital deficiency and a deficit as at July 31, 2011. The Company is still looking for external markets for its HDRG technology. In the current year, 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 HRDG technology, especially by DIG's related companies, and that DIG will be able to raise funds through increased HDRG surveys on a fee for service basis and obtain additional equity financing to pay off debt and to 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.

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.

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

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with International Financial Reporting Standards ("IFRS") effective in calendar year 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. Many of the differences identified between IFRS and Canadian GAAP are not expected to have a material impact on our reported results and financial position. The Company is of the view that there will not be significant changes as a result of IFRS accounting principles and provisions for first-time adoption. The Company does not expect the adoption of IFRS to materially impact the underlying cash flows, profitability, trends in our operating performance, debt covenants or compensation arrangements.

First reporting under IFRS is required for the Company's interim and annual financial statements begins on August 1, 2011. Adjustments, if any, required on transition to IFRS will be made, retrospectively, against opening retained earnings as of August 1, 2010, the date of the first comparative balance sheet presented. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made prospectively as of the first day of the year of adoption. The Company has developed a three-phase plan to convert its financial statements to IFRS as follows:

Phase 1 – Preliminary Plan & Training – in progress

Raise awareness within the Company and have financial staff take training on new IFRS requirements. Perform high-level impact assessment to identify key area that may be affected by the conversion. Analyze accounting software to assess whether information technology systems used to collect financial data require modification in order to meet the new reporting requirements under IFRS. Identify external advisors to participate in the facilitation of the IFRS conversion process and help focus on the accounting issues most relevant to the Company.

Phase 2 - Detailed Assessment, Conversion Planning & Development – in progress

Identify differences in relevant Canadian GAAP and IFRS accounting policies, selection of ongoing IFRS policies, selection of IFRS first-time adoption of IFRS choices, development of new financial statement format.

Whilst Management has not yet completed its quantification of the effects of adopting IFRS DIG does not expect the adoption of IFRS to materially impact the underlying cash flows, profitability, trends in our operating performance, debt covenants or compensation arrangements.

Phase 3 – Implementation & Review – in progress

During this phase, the Company will:

- Obtain formal approval from the Audit Committee on the recommended policy changes;
- Implement the changes to business processes and procedures identified in Phase 2;

- Collect financial information necessary to compile 2010 IFRS compliant financial statements;
- Continue ongoing education and training while continuously monitoring the changes to IFRS.

A detailed analysis of the differences between IFRS and the Company's accounting policies as well as an assessment of the impact of various alternatives is being carried out. Some specific areas reviewed and considered to date are:

(a) Property, Plant and Equipment
IFRS and GAAP contain the same basic principles of accounting for property plant and equipment; however, differences in application do exist. DIG does not anticipate this to have any material affect on the Company;

(b) Impairment of non-current assets
IFRS uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Under IFRS, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. DIG does not anticipate this to have any material affect on the Company;

(c) Stock based compensation
IFRS requires that cash-settled share-based payment to employees is measured (both initially and at each reporting date) based on fair values of the awards. Canadian GAAP on the other hand requires that such payments be measured based on intrinsic values of the awards and is not anticipated to have a material effect;

(d) IFRS 1, First time Adoption of International reporting Standards
IFRS 1 provides entities adopting IFRS for the first time with fourteen optional exemptions and five required exceptions, in certain areas. The most significant IFRS 1 exemptions for the company are in regards to:

Business Combinations: The Company may elect, on transition to IFRS, to either restate all past business combinations or to apply a more limited restatement approach. If the limited restatement approach is chosen, specific requirements must be met, such as: maintaining the classification of the acquirer and the acquiree, recognizing or derecognizing certain acquired assets or liabilities as required under IFRS and re-measuring certain assets and liabilities at fair value. There have been no business combinations up to the transaction date.

The Company plans to apply IFRS 3 prospectively to all business combinations that occurred before the transition date, except as required under IFRS 1.

Fair value or revaluation as deemed cost: The Company may elect to report items of property, plant and equipment, in its opening balance sheet on the transition date, at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis. The Company is not planning to elect this exemption.

Share-based payments: The Company may elect not to apply IFRS 2, "Share-Based Payments" to equity instruments granted on or before November 7, 2002 or which vested before the Company's date of transition to IFRS.

The Company plans to apply IFRS 2 to all equity instruments granted after November 7, 2002 that had not vested as of August 1, 2011, and to all liabilities arising from share- based payment transactions that existed at August 1, 2011. The Company does not expect a material impact on its opening IFRS financial position.

The Company plans to reset all cumulative translation gains and losses to zero in retained earnings (deficit) at the transition date.

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.

Additional And Continuous Disclosure

This MD&A has been prepared as at October 26, 2011. Additional information can be found on the SEDAR website at www.sedar.com or on the Company's website at www.diggerresources.com.