

**Digger Resources Inc.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THREE MONTHS ENDED OCTOBER 31, 2009 AND 2008**

**[December 15, 2009]**

## DIGGER RESOURCES INC.

### MANAGEMENT DISCUSSION AND ANALYSIS FIRST QUARTER ENDED OCTOBER 31, 2009

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. 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, 2009. The MD&A was prepared as at December 15, 2009 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”). These 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 British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol “DIG”.

DIG entered into a technology purchase agreement and a letter agreement in 1999 which provides exclusivity and ownership to DIG of the HDRG leach and MMI Technology’s (“MMI”) global

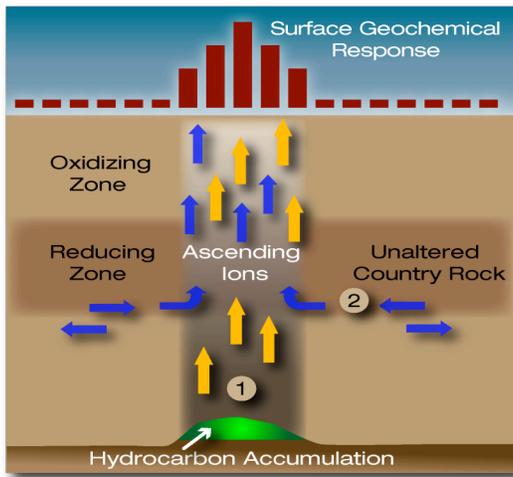


application to hydrocarbon exploration of this metallic/non-metallic ion deep penetrating geochemistry program. The presence of various metallic and non-metallic ions (geochemical signatures) directly above oil and gas accumulations has been well documented. In the past it has been difficult to measure these anomalies both accurately and with a high degree of repeatability, which has severely hampered its applicability and value for hydrocarbon exploration. The HDRG technology was developed by DIG, see website [diggerresources.com](http://diggerresources.com), along with DIG's strategic partner MMI. 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 proprietary leachants and ultra low-level inductively coupled plasma ("ICP") 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 mobile metal ion extractants, licensed and 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. These extractants deliberately avoid 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 ("ICP-MS"). This delivers data with very high precision and accuracy, provided that the solution delivered to the machine is dilute and clean. MMI extractants owned / licensed by DIG meet these criteria particularly well.

Research has shown that these 'mobile ions' are released from sources at depth, migrate essentially vertically to the surface and concentrate in surface soils in very low, but detectable concentrations. These 'mobile ion' anomalies are thought to represent the pre-cursor of the conventional or 'bound' geochemical responses that form broader, less well defined patterns, usually with lower anomaly to background resolution, and often transported or transposed from the primary source. 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 nine (9) 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 Green Dragon Investment Ltd. ("Green Dragon") well drilled in southwestern Saskatchewan on the basis of an HDRG geochemical anomaly. This drilling target was not supported by any seismic or geological information / interpretation available to Green Dragon.





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 Markets

Whilst 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 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 were drilled solely on the basis of HDRG anomalies as the key performance metric of DIG's HDRG program. With the successful drilling outcomes in 2008 / 2009 and anticipated drilling outcomes in 2010 by Green Dragon HDRG has once again confirmed / will confirm 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 thereby validating HDRG. The outcome of these drilling results 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. DIG's management is of the view that HDRG technology is now fully functional at a commercial level, cost effective, robust and reproducible and remarkably effective given the early stage of its commercial application for petroleum exploration.

This strategy has 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 in the Western Canadian Basin through the drill bit via Green Dragon's drilling program at Suffield in southwestern Saskatchewan and in northern Canada through exploration programs undertaken for Devon Canada Corporation.

### Business Model

In the past the Company has charged third party 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 (PSI).

If Green Dragon HDRG drill targets translate to commercial oil wells in 2009 and 2010, as anticipated, the Company should be able to market HDRG to much less skeptical vendors at a higher charge per sample and with the added prospect of a Gross Overriding Royalty as part of DIG's compensation. This will create a cash flow basis from which the Company can pursue and fund the identification and acquisition of oil and gas opportunities through the use of its HDRG technology and further validate HDRG technology through its potential to offer a significant technological

advance in the search for new oil and gas reserves both in new and mature fields. Work in the Suffield District 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.

### Outlook

Green Dragon's reported positive drilling results should improve confidence in HDRG and thereby reduce the perceived risk in relying on that technology to generate drill targets. DIG's management is of the view that HDRG technology is now fully functional at a commercial level, cost effective, robust and reproducible and remarkably effective given the early stage of its commercial application for petroleum exploration.

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. As at October 31, 2009, there existed uncertainty in regards to DIG's ability to continue its activities without having to raise additional capital. In the near future a level of investment will be required to underwrite the costs for general corporate purposes, working capital, acquisitions, to pay debt, to market its HDRG technology and to maintain its Tier Maintenance Requirements. In this regard management believes that future HDRG sampling survey contracts, a private placement and related party funding will contribute adequate cash flow. **Related parties have advanced funds to the Company on an unsecured basis thereby ensuring that DIG is able meet its 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 raised.**

### First Quarter Highlights

DIG reported in its news release of February 11, 2008 that the application of DIG's HDRG technology in the Suffield District, southwestern Saskatchewan resulted in the discovery of two (2) new oil zones in a wildcat well ("1-17 wildcat well"). The 1-17 wildcat well intersected an oil zone in the Roseray Formation with 4.5 metres of gross well log pay. Drilling also encountered a second oil zone associated with the Lower Shaunavon Formation with 6 metres of gross well log pay. The upper portion of the Lower Shaunavon, 1148 to 1152 metres Measured Depth, has a resistivity of 10 to 15 ohms and the porosity is high, reading up to 18%. The 1-17 wildcat well was completed targeting the Lower Shaunavon and the Roseray zones.

As earlier reported in October 2009 Green Dragon evaluated and abandoned the Lower Shaunavon, because of the damage to the casing and the sloughing of the formation resultant from a bad frac during the completion of the well, and perforated the upper porous level, from 1102 to 1103 metres Measured Depth, of the Roseray. That Roseray interval has resistivity of 10 ohms and in Green Dragon's view is oil. Roseray production is typified by high water cuts and facilities capable of separating and disposing of salt water are therefore essential for economic production. At a full run production test from October 20 to October 26, 2009 at the 1-17 wildcat well there was a 2% oil cut realized at a depth of 500 metres from surface to fluid on inflows of 500 barrels of fluid a day. The production test was limited by trucking and surface equipment and it was not possible under these circumstances to draw down the column of fluid in the well below 500 metres from surface to fluid and down to the perforations where significant oil production is possible. Green Dragon is putting into place facilities that will allow for economic production of the 1-17 wildcat well and a planned infill well. The infill well will be drilled in late 2009 / early 2010.



Work in the Suffield District 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. These anomalies were consistent with patterns characteristic with the oil traps discovered in the 1-17 wildcat well and the 4-13-14-19W3M well (“4-13 well”). The 4-13 well was drilled in September 2002 solely on the basis of an HDRG generated anomaly in a reservoir that was 50 years old and resulted in a successful oil well in the Roseray Formation that is still capable of making 80 BOPD. Since the 4-13 well was drilled nine (9) wells have been drilled by third party oil & gas explorers, based on seismic interpretation alone, within a one (1) mile radius around the 4-13 well and in all cases the wells drilled by these third parties have been dry holes, marginal producers or uneconomic to produce.

### Financial Data

The following table includes selected financial data for the First Quarter.

Period ended October 31	First Quarter 2009	First Quarter 2008
<b>Information from the Consolidated Statements of Operations and Deficit</b>		
Revenues	-	30,800
Gross Profit	(2,572)	9,858
Net Income( Loss )and comprehensive results	(2,572)	9,858
Loss per share – basic and diluted	(0.001)	0.001
<b>Information from the Consolidated Statements of Cash Flows</b>		
Cash flows relating to operating activities	187	(343)
<b>Information from the Consolidated Balance Sheet</b>		
Cash equivalents and short term investments	586	247
Working Capital	(294,543)	(240,212)
Total Assets	10,014	15,453
Long term debt, including current portion	Nil	Nil
Total liabilities	296,514	243,354
Shareholder’s equity (Deficiency)	(286,500)	(227,901)

### Operating Results

During the first quarter of the fiscal 2010 year ending October 31, 2009 revenues remained flat. DIG 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. This strategy 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. Based on Green Dragon’s successful drilling outcomes at Suffield DIG’s management is of the view that HDRG technology is now fully functional at a commercial level, cost effective, robust and reproducible and remarkably effective given the early stage of its commercial application for petroleum exploration.



## Revenues

For the first quarter of the fiscal 2010 year ended October 31, 2009, revenues totaled \$ Nil (October 31, 2008-\$30,800) all of which was earned from a company related to a director of the Company.

The revenues realized are the result of execution of the strategy discussed above.

## Operating Expenses

For the first quarter of the 2010 fiscal year, ended October 31, 2009, expenses amounted to \$2,572 compared to \$20,942 for the corresponding period last year as set out hereunder:

	Q1 Fiscal 2010 \$	Q1 Fiscal 2009 \$
<b>EXPENSES</b>		
Stock based compensation costs	-	11,312
Laboratory analysis	-	5,942
License fees	-	-
Office and administrative	1,529	1,363
Professional fees	-	1,250
Amortization	1,043	1,075
	<u>2,572</u>	<u>20,942</u>

We are confident that DIG's strategy and initiatives in regards to the development of HDRG will favourably impact DIG's future growth and revenues whilst establishing HDRG technology as a technological advance in the search for new oil and gas reserves both in new and mature fields.

## Net Loss

For the first quarter of the 2010 fiscal year, net loss amounted to \$2,572 (\$0.001 per share) compared with income of \$9,858 (\$0.001 per share) for the first quarter of the 2009 fiscal year.

## Liquidity and Capital Resources

Liquidity could arise from DIG's inability to meet its obligations and while there can be no certainty management believes that future HDRG sampling contracts, related and third party funding will be needed to generate adequate cash flow to meet the Company's needs. As at October 31, 2009, there existed uncertainty in regards to DIG's ability to continue its activities without having to raise additional capital. In the near future a level of investment will be required to underwrite the costs for general corporate purposes, working capital, acquisitions, to pay debt, to market its HDRG technology and to maintain its Tier Maintenance Requirements.

## Quarterly Operating Data

Operating results for each of the past eight 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, 2009. DIG's unaudited quarterly consolidated financial statements have not been reviewed by our external auditors.



	2010		2009		2008			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues					30,000	30,000		
Net loss and comprehensive results	(2,572)	(177,576)	(7,280))	(16,645)	9,858	(19,413)	(39,685)	(54,251)
Loss per share – basic and diluted	(0.001)	(0.018)	(0.001)	(0.017)	(0.001)	(0.002)	(0.004)	(0.006)
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

### **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**

Research directed and subsequently published by DIG's strategic partner MMI into metal ion geochemistry during the last 15 years, has seen the acceptance and successful global application of this technology to mineral exploration for buried base and precious metal deposits, diamonds and uranium.

DIG entered into a technology purchase agreement in 1999 that provides exclusivity and ownership to DIG of Geochemistry Research Centre's ("GRC") HDRG leach and MMI's global application to hydrocarbon exploration of this metallic/non-metallic ion deep penetrating geochemistry program. DIG will continue to seek to acquire and exploit its proprietary HDRG technology.

### **Related Party Transactions**

Advances from affiliated companies in the amount of \$284,359 (October 31, 2008 - \$239,467) 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 raised from project contracts, borrowings or by way of share issue.

Revenue includes sales of \$Nil (2008 – \$ 30,800) to a company related to a Director of the Company. 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 a loss (\$187,343) for the year ending July 31, 2009 compared to a loss (\$201,901) in the year ending July 31, 2008. The decrease in loss is due primarily to stock based compensation costs required to be reported in the year in the amount of \$156,786 (2008-\$170,492) 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.

## Contractual Obligation

Under the term of an agreement made by DIG with Wamtech Pty / Geochemistry Research Centre ("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 and ownership of the HDRG leachant.

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, adjusted every 10 years to reflect inflationary changes, for use of the leachant. 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 and ownership of the HDRG leach.

Future minimum payments for each of the next fiscal years under the Company's agreement are as follows:

2010	\$8,995
2011	\$8,995
2012	\$8,995
2013	\$8,995
2014	\$8,995
2015 - 2030	\$134,925

## Off Balance Sheet Arrangements

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

## Subsequent Events

Up to the date of this report, December 15, 2009, there have not been any significant subsequent



events or transactions that would require disclosure in, or adjustment to, the interim financial statements as at October 31, 2009 excepting the following:

The TSX Venture Exchange (“the Exchange”) has determined that the Company has more than one Tier 2 Tier Maintenance Requirements deficiency and accordingly DIG has until December 29, 2009 to remedy these deficiencies. Failure to do so will result in the Exchange transferring DIG’s listing to the NEX. The Company is currently assessing this notice from the Exchange.

### **Proposed Transactions**

As at October 31, 2009, the Company did not have any proposed transactions.

### **Significant Accounting Policies**

#### Critical Accounting Policies and Estimates

DIG is a venture issuer therefore this section is not applicable.

#### Revenue Recognition

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.

#### Changes in Accounting Principles Including Initial Adoption

#### Goodwill and Intangible Assets

In February 2008, the CICA issued new CICA Handbook Section 3064, Goodwill and Intangible Assets, which supercedes Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new section applies to financial



statements relating to fiscal years beginning on or after October 1, 2008. Accordingly the Company adopted this new section for its fiscal year starting on August 1, 2009.

#### Future Changes in Accounting Policies:

In January 2009, the Canadian Institute of Chartered Accountants issued three new accounting standards, namely Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, in order to converge with the international standards for business combinations and reporting of a non-controlling interest in consolidated financial statements.

Section 1582, Business Combinations, supercedes Section 1581, Business Combinations, and establishes the main principles governing recognition and consideration given as well as the recognition and measurement of identifiable assets acquired and liabilities assumed in a business combination at the fair value of the acquiree on the acquisition date, even if the business combination is a staged process. Subsequent changes to the fair value of the contingent consideration classified as a liability will be recognized in retained earnings and not as an adjustment to the acquisition price. Restructuring and other direct costs related to business combinations will no longer be deemed costs included in the recognized acquisition price, but charged to the periods in which they are incurred, unless they are considered costs for the issuing of new debt or equity. In addition, for each business combination, the purchaser must record the non-controlling interest in the acquired business either at fair value or at the participating percentage in the net identifiable assets of the acquiree. This section must be applied on a prospective basis to business combinations with acquisition dates in a fiscal year beginning on or after August 1, 2011. The Company did not elect early adoption of this new section, as permitted. This new section will impact only business acquisitions made after the effective date.

Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together supercede Section 1600, Consolidated Financial Statements, apply to the recognition in consolidated financial statements of non-controlling interests and to transactions with holders of non-controlling interests. The new sections require that non-controlling interests be reported as a separate component in shareholders' equity. These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after August 1, 2011 and will be adopted concurrently with Section 1582.

#### 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"). For its 2012 interim and annual financial statements, the Company will be required to report under IFRS and to provide IFRS comparative information for the 2011 financial year.

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.

The conversion project consists of four phases.



**“Diagnostic” Phase** - This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters, and a high-level assessment of potential consequences on financial reporting, business processes, internal controls, and information systems.

**“Design and Solutions Development” Phase** - This phase involves prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of converting to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes, developing IFRS training material, and drafting IFRS financial statement content.

**“Implementation” Phase** - This phase involves embedding changes to systems, business processes and internal controls, determining the opening IFRS transition balance sheet and tax impacts, parallel accounting under Canadian GAAP and IFRS, and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements.

**“Post-Implementation” Phase** - This phase involves conversion assessment, evaluating improvements for a sustainable operational IFRS model, and testing the internal controls environment.

The Company has completed the diagnostic phase and is continuing the design and solutions phase, is developing solutions for most of the important topics and is continuing to develop and execute its project implementation strategy. Initial training has been provided to key employees and further investment in training and resources will be made throughout the transition to facilitate a timely and efficient changeover to IFRS.

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.

At this time, the comprehensive impact of the changeover on the Company’s future financial position and results of operations is not yet determinable. Management expects to complete this assessment in time for parallel recording of financial information in accordance with IFRS beginning in 2010.

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.

### Going Concern Uncertainty

DIG has sustained losses in the current year and prior years and anticipates that the level of future net annual expenditures to meet its obligations and maintain its Tier 2 Listing Requirement will exceed cash and cash equivalents and short-term investments as at October 31, 2009. 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 or expand its HDRG technology and meet its obligations and maintain its Tier Maintenance Requirements 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. At the present time there are no known technologies that will significantly affect the Company's operations. 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.

#### 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 and Intellectual Property

The Company's technology purchase agreement and letter agreement, they provide exclusivity and ownership to DIG of the HDRG leach and MMI Technology's global application to hydrocarbon exploration of this 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.

### **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 such as GWMG 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, 2009 annual 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 \$284,359 (October 31, 2008 - \$239,467) 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 raised from project contracts, borrowings or by way of share issue.

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

As at October 31, 2009, DIG had a shareholder's deficiency of \$(286,500).

The Company's common shares trade on the TSX Venture Exchange (V:DIG), and as at October 31, 2009 the Company had 9,349,035 (9,349,035 at December 15, 2009) fully issued and outstanding common shares.

The following common share stock options are issued and outstanding:

- At October 31, 2009, a total of 1,125,000 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 ranging from 2011 to 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.
- At October 31, 2009 a total of 744,809 common stock options were available for grants.



### **Investor Relations Activities**

The Company did not engage any outside consultants to provide investor relations activities for the twelve months ended October 31, 2009. All investor relation activities are conducted by Company personnel.

