

Digger Resources Inc.

Consolidated Financial Statements
July 31, 2014 and 2013



October 21, 2014

Independent Auditor's Report

To the Shareholders of Digger Resources Inc.

We have audited the accompanying consolidated financial statements of Digger Resources Inc. and its subsidiary, which comprise the consolidated statement of financial position as at July 31, 2014 and July 31, 2013, and the consolidated statements of changes in equity, loss and comprehensive loss, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Digger Resources Inc. and its subsidiary as at July 31, 2014 and July 31, 2013, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Digger Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

Digger Resources Inc.

Consolidated Statements of Financial Position

As at July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

	2014 \$	2013 \$
Assets		
Current assets		
Cash	30,696	77,919
Accounts receivable	214	223
	<u>30,910</u>	<u>78,142</u>
Non-current assets		
Capital assets (note 6)	1,228	1,708
	<u>32,138</u>	<u>79,850</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	25,000	26,300
Shareholders' Equity		
Capital stock (note 9)	4,715,884	4,715,884
Warrants (note 9)	120,000	120,000
Contributed surplus (note 10)	1,958,417	1,939,204
Deficit	<u>(6,787,163)</u>	<u>(6,721,538)</u>
	<u>7,138</u>	<u>53,550</u>
	<u>32,138</u>	<u>79,850</u>
Going concern (note 2)		
Commitments and Contingencies (note 14)		

Approved by the Board of Directors

Norman Yeo Director

Graeme Wallace Director

The accompanying notes are an integral part of these consolidated financial statements.

Digger Resources Inc.

Consolidated Statements of Changes in Equity For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

	Capital Stock \$	Warrants \$	Share- based Payment Reserve \$	Deficit \$	Total \$
Balance August 1, 2012	4,715,884	120,000	1,827,833	(6,557,818)	105,899
Stock compensation costs (note 10)	-	-	111,371	-	111,371
Net loss for the year	-	-	-	(163,720)	(163,720)
Balance July 31, 2013	4,715,884	120,000	1,939,204	(6,721,538)	53,550
Stock compensation costs (note 10)	-	-	19,213	-	19,213
Net loss for the year	-	-	-	(65,625)	(65,625)
Balance July 31, 2014	4,715,884	120,000	1,958,417	(6,787,163)	7,138

The accompanying notes are an integral part of these consolidated financial statements.

Digger Resources Inc.

Consolidated Statements of Loss and Comprehensive Loss For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

	2014 \$	2013 \$
Revenue		
Sales (note 16)	-	-
	<hr/>	<hr/>
Expenses		
Professional fees	27,744	31,046
Depreciation and amortization (note 6)	480	680
Office and administrative	18,188	20,623
Stock compensation costs (note 10)	19,213	111,371
	<hr/>	<hr/>
	65,625	163,720
	<hr/>	<hr/>
Net loss and comprehensive loss for the year	(65,625)	(163,720)
	<hr/>	<hr/>
Net loss per share – basic and diluted (note 9)	(0.005)	(0.014)
	<hr/>	<hr/>
Going concern (note 2)		

The accompanying notes are an integral part of these consolidated financial statements.

Digger Resources Inc.

Consolidated Statements of Cash Flows

For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

	2014 \$	2013 \$
Cash flows provided by (used in)		
Operating activities		
Net loss for the year	(65,625)	(163,720)
Items not affecting cash		
Stock compensation costs	19,213	111,371
Depreciation and amortization	480	680
	<u>(45,932)</u>	<u>(51,669)</u>
Net change in non-cash working capital items (note 15)	<u>(1,291)</u>	<u>(15)</u>
Decrease in cash for the year	(47,223)	(51,684)
Cash – Beginning of year	77,919	129,603
Cash – End of year	<u>30,696</u>	<u>77,919</u>

Going concern (note 2)

The accompanying notes are an integral part of these consolidated financial statements.

Digger Resources Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

1 Nature of operations

Digger Resources Inc.'s ("Digger" or the "Company") 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.

Digger is a publicly traded company, incorporated and domiciled in Canada. The address of its registered office is Suite 700, 595 Burrard Street, Vancouver, British Columbia, V7X 1S8, Canada.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors (the "Board") on October 21, 2014.

2 Going concern assumption

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

However, the use of such principles may not be appropriate because there is significant doubt surrounding the ability of Digger to continue as a going concern. For the year ended July 31, 2014, Digger has a cash balance of \$30,696 (2013 – \$77,919), an accumulated deficit of \$6,787,163 (2013 – \$6,721,538), generated negative operating cash flows of \$47,223 (2013 – \$51,684) and has not yet secured any contracted revenue for fiscal 2014 or 2015. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Digger's ability to continue as a going concern is dependent on obtaining successful contracts or obtaining additional financing from related parties. Successful contracts will be dependent on payment being received for provision of its HDRG technology provided to customers, as well as securing additional contracts and earning sufficient revenue from existing and new contracts to meet the Company's cash requirements. In recognition of these circumstances, Digger is still looking for new customers and external markets for its HDRG technology that will provide the Company with sufficient revenue to meet cash requirement, as well as investigating possible sources of financing. In the current year Digger has initiated contracts with a number of customers for which the work is currently in progress. Management is expecting that 2015 will see advancement in the use of HDRG technology, especially as a result of the work that is currently underway. Management is also expecting that Digger will be able to raise funds through increased HDRG surveys on a fee for service basis and obtain additional financing from related parties to fund its operations and to market its HDRG technology to new vendors. Until such time Digger is reliant on financing from related parties.

Digger Resources Inc.

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

3 Basis of presentation

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). The Company has consistently applied the same accounting policies throughout all years presented except as disclosed in note 5n.

4 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements as future confirming events occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below with further details of the assumptions contained in the relevant note.

Significant accounting estimates:

Share-based payments and warrants

Charges for share-based payments and warrants are based on the fair value at the date of the award. The shares and warrants are valued using the Black-Scholes model, and inputs to the model include management’s assumptions on share price volatility, expected forfeitures, discount rates and expected life outstanding.

Significant accounting judgments:

Deferred income taxes

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company’s estimate, the ability of the Company to realize the deferred tax assets could be impacted.

Digger Resources Inc.

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For the years ended July 31, 2014 and 2013

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By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

5 Significant accounting policies

These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

b) Functional and presentation currency

The functional currency of the Company is Canadian dollars, and all amounts are presented in Canadian dollars unless otherwise stated.

Foreign currency transactions are translated using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank less outstanding cheques.

d) Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the Company. These criteria are met and HDRG revenue is recognized based on number of samples analyzed in accordance with the agreed contractual obligations and when payment is reasonably assured.

e) Consolidation

The financial statements consolidate the accounts of Digger Resources Inc. and its subsidiaries. Subsidiaries are those entities which Digger Resources Inc. controls by having the power to govern the financial and operating policies. The consolidated financial statements include the accounts of the Company and its inactive wholly owned subsidiary, Color Lazer Products Inc. Subsidiaries are fully consolidated from the date on which control is obtained by Digger Resources Inc. and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

Digger Resources Inc.

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f) Technology development costs

HDRG technology is recorded at cost less accumulated amortization. Amortization is provided over five years, the estimated economic life of the technology.

Technology development costs that are capitalized are assessed for indicators of impairment each reporting period. If there are indicators, an impairment test is performed to determine if the carrying value is still appropriate. Any impairments are charged to income in the period incurred. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Digger's policy is as follows:

Expenditures on research shall be recognized as an expense when it is incurred.

An intangible asset arising from development shall be recognized only if the following criteria are met, as outlined in IAS 38;

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

g) Capital assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

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Depreciation is provided over the estimated useful life of the assets at annual rates as follows, except for the first year for which only one half of this amortization is recorded:

Computer equipment	30% declining balance
Office furniture and equipment	20% declining balance

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or 'CGUs'). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

Impairment losses and gains and losses on disposals of property, plant and equipment and are included in statement of income and comprehensive income.

A previous impairment, other than an impairment of goodwill, is subsequently assessed for any indications that the impairment is reduced or no longer exists. An impairment loss is reversed if there has been an increase in the recoverable amount of an asset compared to its current carrying value. Impairment losses are reversed only to the extent that the assets' carrying amount would not exceed the carrying amount that would have been reported if no impairment loss had been recognized.

h) Warrants

The Company has adopted the pro-rata basis method for the measurement of shares and warrants issued as private placement units. The pro-rata basis method requires that gross proceeds and related share issuance costs be allocated to the common shares and the warrants based on the relative fair value of the component.

The fair value of the common share is based on the closing price on the closing date of the transaction less the fair value of the warrant as determined using the Black Scholes Option Pricing Model.

The fair value attributed to the warrant is recorded as warrant equity. If the warrant is exercised, the value attributed to the warrant is transferred to share capital. If the warrant expires unexercised, the value remains in warrants line item within equity. Warrants that have their term of expiries extended are not subsequently revalued.

i) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

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Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

j) Share-based payments

The Company recognizes as compensation expense in respect of stock options granted under the Company's Stock Option Plan described in note 10. The expense is equal to the estimated fair value of the options, as valued by the Black-Scholes model, at its grant date and is amortized over the vesting period of the option. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. Compensation expense is initially credited to share based payment reserve and transferred to capital stock when the option is exercised. Consideration received on the exercise of stock options is credited to capital stock. If the stock options expires unexercised, the value remains in Share-based payments reserve within equity.

k) Financial instruments – recognition and measurement

The Company has classified its financial instruments as follows: cash and cash equivalents and accounts receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

All financial instruments are included on the balance sheet and are measured at fair value, except for loans and receivables and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value depends on the initial classification of the particular instrument. Held for trading financial instruments are measured at fair value with gains and losses recognized in earnings immediately. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable. Loans and receivables, and other financial liabilities are recognized at amortized cost using the effective interest method and impairment losses are recorded in earnings when incurred.

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Notes to Consolidated Financial Statements

For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

The Company's accounting policy with respect to transaction costs has been to capitalize all transaction costs for all financial instruments.

l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

m) Earnings per share

The earnings per share is calculated using the weighted average number of shares outstanding. The Company follows the treasury stock method of accounting for fully diluted earnings per common share. The treasury stock method computes the number of incremental shares by assuming the outstanding stock options and warrants exercisable at exercise prices below the average market price for the applicable period are exercised and then that number of incremental shares is reduced by the number of shares that could have been repurchased from the issuance proceeds, using the average market price of the Company's shares for the applicable period.

n) New and revised accounting policies adopted

A number of new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting period beginning on January 1, 2014. None of the new standards had a material impact on the Company's condensed consolidated interim financial statements, but include:

- Amendments to IAS 32, Financial assets and financial liabilities
- Amendments to IAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting
- IFRIC 21, Government Levies
- IFRS 10, Exception from consolidation for 'investment entities'
- IFRS 12 and IAS 27 are amended to introduce disclosures that an investment entity needs to make

The Company currently does not have any financial assets or financial liabilities that would be impacted by the amendments to IAS 32. In addition, the Company has not had any impairments (or reversals) that were determined based on fair value less costs of disposal in the current period or comparative period that would require disclosure under IAS 36. The Company currently does not have any hedging derivatives to consider under IAS 39 nor is it subject to government imposed levies that are included in the scope of IFRIC 21.

Digger Resources Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

o) New standards and interpretations not yet adopted

i) IFRS 13, Fair value measurements (effective July 1, 2014)

Provides clarification related to the portfolio exception. This standard is expected to have minimal impact on the Company's consolidated financial statements.

ii) IAS 34, Interim Financial Reporting (effective January 1, 2016)

Amended to (i) clarify what is meant by "information disclosed elsewhere in the interim financial report" and (ii) require a cross reference to the location of that information.

iii) IAS 16, PP&E and IAS 38, Intangible assets (effective July 1, 2014)

Clarifies how gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. This standard is expected to have minimal impact on the Company's consolidated financial statements.

iv) IAS 16, PP&E and IAS 38, Intangible assets (effective January 1, 2016)

Amends IAS 16 Property Plant and Equipment and IAS 39 Intangible Assets to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriated, and (ii) provide a rebuttable presumption for intangible assets. This standard is expected to have minimal impact on the Company's consolidated financial statements.

v) IAS 24, Related party transactions (effective July 1, 2014)

Amended to (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. This standard is expected to have minimal impact on the Company's consolidated financial statements.

vi) IFRS 7, Financial instruments: Disclosures (effective January 1, 2015)

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9 which is effective for years beginning on/after January 1, 2015. This amendment is expected to have minimal impact on Company's consolidated financial statements.

vii) IFRS 7, Financial instruments: Disclosures (effective January 1, 2016)

Amended to (i) add guidance on whether an arrangement to service a financial asset which has been transferred constitutes continuing involvement, and (ii) clarify that the additional disclosure required by the amendments to IFRS 7, Disclosure – Offsetting financial assets and financial liabilities, is not specifically required for interim periods, unless required by IAS 34.

Digger Resources Inc.

Notes to Consolidated Financial Statements For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

viii) IFRS 9, Financial Instruments (effective January 1, 2015)

The standard is the first step in the process to replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 regarding the recognition of financial assets and financial liabilities. This standard is expected to have minimal impact on the Company’s consolidated financial statements.

ix) IFRS 15, Revenue from contracts with customers (effective January 1, 2017)

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). IFRS 15 is effective for periods beginning on or after January 1, 2017 and is to be applied retrospectively. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2017. The extent of the impact of adoption of IFRS 15 has not yet been determined.

6 Capital assets

Cost	Computer equipment \$	Office equipment \$	Total \$
Balance July 31, 2013	234,287	50,504	284,791
Additions	-	-	-
Balance July 31, 2014	234,287	50,504	284,791
Accumulated depreciation			
Balance July 31, 2013 and August 1, 2013	232,886	50,197	283,083
Depreciation	420	60	480
Balance July 31, 2014	233,306	50,257	283,563
Net book value at July 31, 2014	981	247	1,228

7 Technology development costs

Technology development costs of \$200,667 have been written off in prior years and no indicator of reversal of impairment was identified in 2014.

8 Related party transactions

During the year, a director was reimbursed for expenses incurred in the amount of \$185 (2013 – \$nil). Transactions were measured at the fair value and are payable on demand.

Digger Resources Inc.

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(expressed in Canadian dollars unless otherwise stated)

9 Capital stock and warrants

Authorized

100,000,000 common shares with no par value (2013 – 100,000,000).

Issued

	2014		2013	
	Number of shares	Amount \$	Number of shares	Amount \$
Capital stock				
Balance – Beginning of year	11,349,035	4,715,884	11,349,035	4,715,884
Shares issued on private placement	-	-	-	-
Balance – End of year	11,349,035	4,715,884	11,349,035	4,715,884
	Number of warrants	Amount \$	Number of warrants	Amount \$
Warrants				
Balance – Beginning of year	-	120,000	2,000,000	120,000
Warrants expired during the year	-	-	(2,000,000)	-
Balance – End of year	-	120,000	-	120,000

Loss per share

The weighted average number of common shares outstanding for the year ended is as follows:

	2014	2013
Loss for the year	(65,625)	(163,720)
Basic and diluted numbers of shares	11,349,035	11,349,035
Basic and diluted loss per share	(0.005)	(0.014)

For the year ended July 31, 2014, 950,000 (2013 – 950,000) stock options were excluded from the calculation of diluted shares as they would be anti-dilutive.

Digger Resources Inc.

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10 Share-based payments

Digger has established a stock option plan whereby options may be granted to the Company's directors, officers, employees and consultants. The number of common shares issuable under Digger's share option plan cannot exceed 20% of the issued and outstanding common shares of Digger. The number of common shares issuable to any one person under the plan cannot exceed 5% of the total number of common shares outstanding. The exercise price of each option equals the market price of Digger's stock on the date of the grant and options' maximum life of five years and is equity settled. The vesting period is determined by the Board of Directors. Options issued to date vest equally every three months from date of grant.

A summary of the outstanding stock options as of July 31, 2014 and 2013, and changes during the years then ended are as follows:

	2014		2013	
	Stock options	Weighted average exercise price \$	Stock options	Weighted average exercise price \$
Outstanding – Beginning of year	950,000	0.15	-	-
Granted during the year	-	-	950,000	0.15
Expired during the year	-	-	-	-
Outstanding – End of year	-	0.15	-	0.15
Exercisable – End of year	950,000	0.15	474,990	0.15

The 950,000 options were granted to key management and are vesting in six equal tranches within eighteen months since grant for a term of five years from the date of grant. As at July 31, 2014 the weighted average years to expiry are 3.12 years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model. The fair value of each option granted by the Company during the years ended July 31, 2014 and 2013 was estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2014	2013
Number of options granted	-	950,000
Fair value of options granted (\$ per options)	-	0.14
Risk-free interest rate	-	1.38%
Expected stock price volatility	-	153%
Expected dividend yield	-	0%
Expected warrant life in years	-	5

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Total compensation expense is amortized over the vesting period of the options. Compensation expense of \$19,213 (2013 – \$111,371) has been recognized during the period based on the estimated fair value options of the grant in accordance with the fair value method of accounting for stock-based compensation.

11 Income taxes

	2014 \$	2013 \$
Net income before income taxes	(65,625)	(163,720)
Tax rate	25%	25%
Expected income tax expense	(16,406)	(40,930)
Tax benefit of losses not recognized (or utilized tax benefit)	11,603	13,087
Stock based compensation	4,803	27,843
Provision for income taxes	-	-

The Company tax pools associated with non-capital losses and capital assets and exploration expenditures which exceed the related book values are as follows:

Deductible Temporary Differences	2014 \$	2013 \$
Capital assets	278,250	277,770
Intangible assets	140	151
Exploration expenditures	2,911,861	2,911,861
Non-capital losses	300,768	254,825
	<u>3,491,019</u>	<u>3,444,607</u>

As at July 31, 2014 and July 31, 2013 no deferred tax asset was recognized in the statement of financial position for these deductible temporary differences due to uncertainties around future profitability.

The non-capital losses expire as follows:

	\$
2026	2,135
2027	92,204
2028	31,425
2029	30,572
2030	46,809
2033	51,680
2034	45,943
	<u>300,768</u>

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12 Financial Instruments

a) Fair value of financial assets and liabilities

The Company's financial instruments recognized in the statement of financial position consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of these recognized financial instruments approximate their carrying amounts due to the short term nature of the amounts.

b) Credit risk

Digger is exposed to credit losses in the event of non-payment of accounts receivable. The carrying values reflect management's assessment of the associated maximum exposure to such credit risk. The Company has not previously experienced any material credit losses on the collection of accounts receivable. There are no allowances and no past due receivables as at the end of July 31, 2014 and July 31, 2013. Cash is held with a reputable chartered bank from which management believes the risk of loss is minimal.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company has heightened liquidity risk due to the lack of third party contracted revenue and dependency on related party funding. To mitigate liquidity risk that is attributed to accounts payable and accrued liabilities, the Company closely monitors liquidity related to obligations by evaluating forecasted cash flows, including capital spending activity, working capital requirements, and other potential cash expenditures. This continual financial assessment process enables the Company to mitigate liquidity risk.

The Company has negative cash flow from operations, an accumulated deficit at July 31, 2014 and no revenue contracted for 2014 and 2015, therefore a going concern note (note 2) is included in the consolidated financial statements. All accounts payables and accrued liabilities are due within one year.

d) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

i) Currency risk

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

The Company is exposed to currency risk as lab and license fees are in Australian currency. There were no lab and licenses fee incurred in 2014 and as such there are no foreign exchanges gains or losses recognized.

Digger Resources Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

ii) Interest rate risk

Interest rate risk concerns the exposure of the Company to the future changes in the prevailing level of interest rate. The Company is not exposed to interest rate risk as there are no assets or liabilities subject to interest charges.

13 Management of capital resources

The capital structure of the Company is composed of shareholders' equity of \$7,138. The Company's objective when managing capital is to maintain sufficient liquidity in a combination of operating cash and short or long-term debt, in order to meet the business needs for financing operation costs and asset purchases.

The Board relies on the expertise of management to sustain future development of the business. The Company will continue to assess new sources of financing available and manage expenditures to reflect current financial resources in the interest of sustaining long-term viability. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. The Company does not have any externally imposed capital requirements (note 2).

14 Commitments and contingencies

Effective October 5, 2010, ALS Laboratory Group ("ALS") granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. The term of the agreement with ALS is for three years with two renewable terms thereafter of five years each by the end of the third year (October 2013) of the contract, based on successful achievement of performance objectives as indicated below. This agreement was extended until October 31, 2015 (note 17):

- a) In the last full year of the first three year license term (October 2013) no less than 5,000 samples are to be delivered by Digger to ALS for analysis using a partial leach analytical technique;
- b) In the last full year of the first five year renewal period (October 2018) no less than 20,000 samples are to be delivered by Digger to ALS for analysis using a partial leach analytical technique.

If the performance objectives are not met, the contract expires. There are no penalties or financial commitments associated with not meeting the minimum samples.

15 Changes in non-cash working capital accounts

	2014 \$	2013 \$
Operating activities		
Trade and other receivables	9	(15)
Trade and other payables	(1,300)	-
	<hr/>	<hr/>
	(1,291)	(15)
	<hr/>	<hr/>

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For the years ended July 31, 2014 and 2013

(expressed in Canadian dollars unless otherwise stated)

16 Key management compensation

There are no payments made to key management personnel in 2014 (2013 – \$nil) other than options granted as disclosed in note 10.

17 Subsequent events

On October 15, 2014, ALS and Digger agreed to extend the last full year of the first three year license term whereby no less than 5,000 samples are delivered by Digger to ALS for analysis using a partial leach analytical technique for an additional period ending on October 31, 2015.

