



**DIGGER RESOURCES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**SIX MONTHS ENDED JANUARY 31, 2014 AND 2013**

**[March 11, 2014]**

**DIGGER RESOURCES INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
SECOND QUARTER ENDED JANUARY 31, 2014**

This Management’s Discussion and Analysis (“MD&A”) is intended to provide the reader with a better understanding of the activities of Digger Resources Inc. (“Digger or the Company”) and its key financial results. In particular, it explains changes in the Company’s financial position and operating results for the second quarter ended January 31, 2014 by comparing it to those of the second quarter of the previous fiscal year.

This MD&A has been prepared in accordance with *National Instrument 51-102, Continuous Disclosure Obligations*, and should be read in conjunction with the audited consolidated financial statements for the year ended July 31, 2013 and with the unaudited interim condensed consolidated financial statements for the period ended January 31, 2014. The Company’s audited consolidated financial statements for the year ended July 31, 2013 and unaudited interim condensed consolidated financial statements for the period ended January 31, 2014 have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board (“IASB”) and interpretation of the International Financial Reporting Interpretations Committee (“IFRIC”). Canadian generally accepted accounting principles (“GAAP”), previously used to prepare the consolidated financial statements, was replaced with International Financial Reporting Standards (“IFRS”) as at August 1, 2010.

The unaudited interim condensed consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Company’s Board of Directors. Unless otherwise indicated all the amounts in this MD&A are in Canadian dollars. The MD&A was prepared as at March 11, 2014 and these documents, along with additional information about the Company, are available at [www.diggerresources.com](http://www.diggerresources.com) and [www.sedar.com](http://www.sedar.com).

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

**Forward Looking Statements**

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

## Highlights

As earlier reported the ALS Limited (“ALS”) granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant (the “Leachant”) that is being used by Digger as a cornerstone in its High Definition Reservoir Geochemistry (“HDRG”) program 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/non-metallic ions and isotopes in near surface soil profiles. ALS has introduced Digger and Digger has presented its HDRG technology to a number of ALS clients in the Middle East and in Australia. Effective June 24, 2011 the agreement with ALS was amended pursuant to an addendum which provides that for HDRG work that is sourced in the Arabian Peninsula that ALS Arabia, a joint venture between ALS and the Saudi corporation Maamel, will serve as the prime contractor for work in the Arabian Peninsula and Digger will serve as its subcontractor.

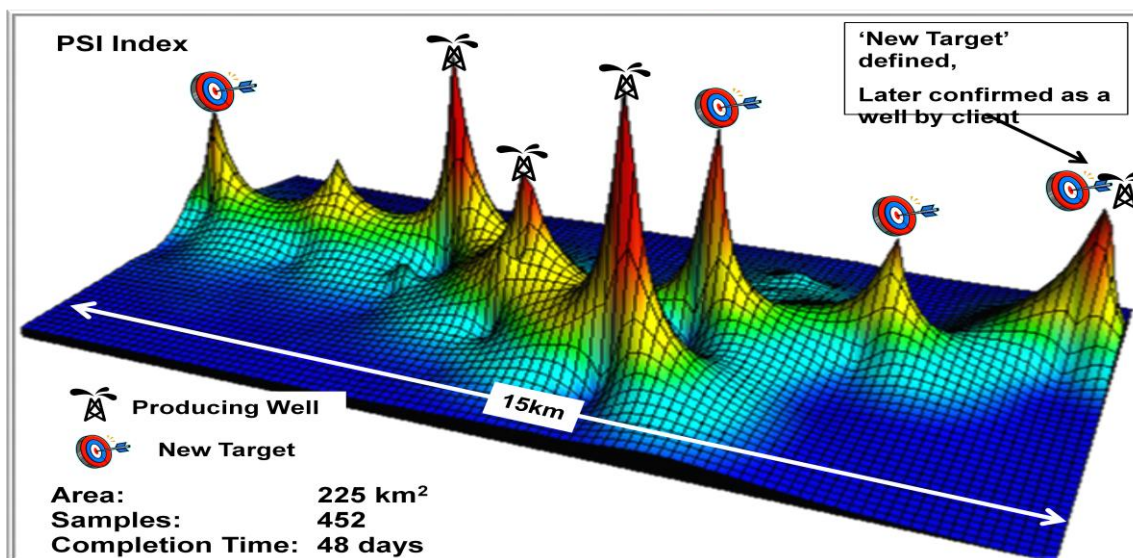
After successful HDRG orientation surveys for oil and gas in Australian deserts in 2011, Digger recognized the potential for application in the Arabian terrains of the Middle East. Digger was retained to complete similar HDRG orientation surveys in Arabia for a fully integrated international petroleum company at the behest of ALS Arabia during 2011/12. The aims of the HDRG survey were to:

1. Confirm that a number of critical individual element and isotopic signatures could be successfully measured in Arabian soils;
2. Identify key element signatures that elsewhere can be related to oil and gas production;
3. Determine significant element levels and type of geochemical fingerprints in near surface soils corresponding to oil and gas production in Arabia.

Successful outcomes included:

1. Confirmation from the Arabian clients that HDRG anomalies were corresponding with known oil and gas production reservoirs;
2. The Arabian anomalies showed previously recognized and new element signatures;
3. Sample collection protocols were modified to improve element response levels.

## HDRG Case Study - Arabia



Subsequent work during 2012/13 in Arabia defined the effective limits of the original HDRG leach to operate successfully in Arabia and North Africa, along with other similar landscapes and climatic environments globally.

Based on these outcomes, during 2013 Digger worked on a number of research & development and application projects in Arabia and Canada – these initiatives included:

1. Development of a new 3<sup>rd</sup> generation HDRG leach with comparative testing on 5,575 Arabian/Nubian soils;
2. Defining new protocols and analytical procedures to identify key processes at surface needed for formation of HDRG Anomalies - a supplement to measuring element responses;
3. Measurement of isotopes in the new HDRG leach that reflect a buried source of isotope species at depth.

The importance of the ongoing 2013 work cannot be underestimated for the Company. The HDRG leach has now undergone an order of magnitude improvement in its sensitivity for key elements and isotopes known to target hydrocarbons in Arabia and North Africa, indeed globally. Modified sampling protocols for Arabia significantly improve HDRG cost effectiveness, while delivering higher quality sample for analyses thereby enhancing HDRG sensitivity.

HDRG now has the ability to measure a number of isotope species at surface, via technology transfer from successful ionic geochemical metal exploration studies. This potentially provides Digger an opportunity to 'isotopically fingerprint' and define different sources (ages) of hydrocarbons. The significance to Digger's other active on-going R&D work with Green Dragon Investments Ltd. ("Green Dragon") in Saskatchewan is clearly apparent. Distinguishing between differing ages of hydrocarbon reservoirs (e.g. the Roseray vs Lower Shaunavon) where one is a more prolific producer than the other, could significantly increase the level of production while decreasing unnecessary drilling.

In light of these developments, work continues in the Suffield District in southwestern Saskatchewan where highest HDRG responses have previously targeted zones of maximum hydrocarbon accumulation. HDRG anomalies do correspond to structural and stratigraphic positions and have been identifying optimum well target positions as earlier reported Green Dragon. The 3-1-14-19W3M, 15-36-13-19W3M and 1-17-14-18W3M vertical wells were positioned solely on the basis of HDRG geochemical anomalies - in all cases drilling intersected a pay zone associated with the Lower Shaunavon sands, a target position not previously recognized as an exploration target in this location. The 1-17-14-18W3M also intersected the Roseray Formation above the Lower Shaunavon, a younger more productive unit.

The ability to distinguish differing ages of hydrocarbons i.e. the potentially better producers through specific isotopic signatures near surface would significantly improve the technology’s value. This ability will allow it to not only target discrete maximum hydrocarbon targets, but also assist with prioritizing the best anomalies for optimum production.

Digger’s focus is now on developing this capability commercially while maintaining its technological development and advantage. During 2013 the company has established links to oil and gas production and exploration companies in Arabia, the Middle East and North Africa. Technical and commercial presentations are continuing and management is confident that this marketing initiative, supported by current successes will result in commercial surveys and an acceptance of the technology in Arabia.

## Company Profile

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”.

The Company’s principal business activity has been advancing the development and application of HDRG technology for oil and gas exploration. It has maintained its technological development by testing HDRG in numerous global environments using field based case studies supported by targeted research projects to address specific issues that arose during testing and validation. Development of an effective, commercially competitive exploration technique is never simple, and acceptance of HDRG technology requires a paradigm shift in concepts and understanding. Much of the science required for such understanding (e.g. nano technology) is itself in its infancy and relatively new to exploration. However; Digger now believes that it has progressed its science to a level whereby commercialization in its key markets – Middle East, Africa and North America is timely.

HDRG benefits are many and include very concise well targeting, fast data acquisition, non-invasive environmentally and cost effectiveness. HDRG relies on the detection of metallic and non-metallic ions and isotopes in near surface soil profiles that have been shown to be characteristic of hydrocarbon reservoirs.

Geophysics, principally seismic techniques, has provided the primary methods for discovery of sub-surface oil and gas. Seismic is used for structural mapping over depth ranges measured in kilometers, however, it cannot predict with reliability the presence or absence of petroleum. Surface exploration including conventional geochemistry, gas detection, and high resolution magnetics are additional tools applied to try and determining the presence of hydrocarbons at depth. Surface exploration usually takes two forms, direct measurement of hydrocarbon species and gases at surface, a subject discussed in a large number of publications. Other surface techniques measure the products from reactions in soils and can include accumulation of

magnetic minerals, different biota and flora. Despite the empirical measurement of a variety of ‘products’ above reservoirs which are well documented, the fundamental theory behind their presence above petroleum reservoirs at depth is not well understood, but was predicated on empirical observations and assumes that hydrocarbon species migrate to the surface through seemingly impervious barriers and leave their varying signatures in soils.

Previously it has been difficult to measure these anomalies accurately and with a high degree of repeatability, especially over different time frames. This severely hampered surface exploration and the value and reputation of various techniques for hydrocarbon exploration suffered. The level of scientific understanding over the last decade has progressed significantly, where sound scientific research, particularly into Nano particle behaviour, is now starting to provide viable explanations based on new scientific understanding.

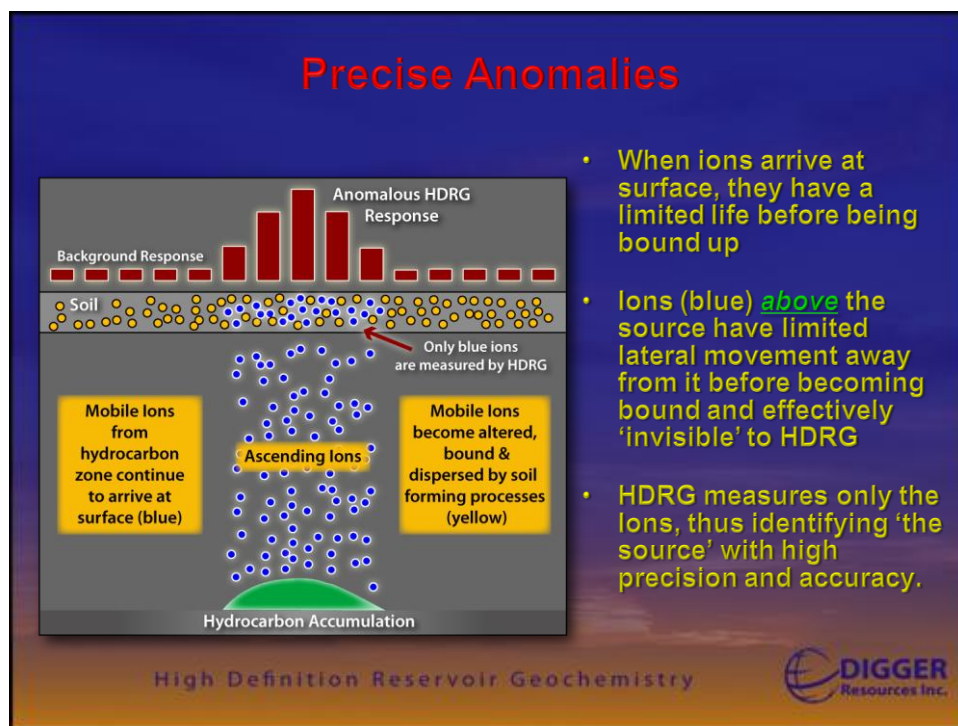
Since early 1990’s research in the minerals industry has shown that ionic and isotopic forms of elements are released at depth (+1kilometer), travel essentially vertically to surface and accumulate in ionic forms in near surface soils. Research findings attesting to this phenomenon are now appearing in reputable peer reviewed scientific journals. In time, these ionic species react with the soils and become bound up, mostly only detectable by dissolving in strong acids and subsequent analysis. It is these bound products OR secondary products from later reactions at the surface caused by heat, moisture, chemical or bacterial reactions that previous surface techniques have relied on.

These reactions can randomly affect the strength of the products and in some cases after creating them, it can completely destroy all trace. Thus measuring secondary products often leads to false anomalies that will not repeat.

In contrast HDRG works by detecting the metallic/non-metallic ions and isotopes that form geochemical signatures directly above oil and gas accumulations – **before they can react or become bound up in the soil**. In essence the anomalies detected by HDRG are in some cases the pre-cursors of the later conventional products that are measured by other analytical methods. By measuring the early forms of the anomaly before they can be locked away or moved, HDRG anomalies are very concise and repeatable.

HDRG collects and analyses near surface soil samples using a proprietary ‘extractant’ (chemical cocktail) followed by and ultra low-level inductively coupled plasma (ICP) analysis. Digger takes a very different approach to its analysis of metals/non-metals and isotopes in soils by using extremely weak chemicals rather than aggressive conventional concentrated acid 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 Digger’s HDRG extractant contains chemicals to detach and hold in solution only the ions and isotopes recently arrived from the source at depth and which still remain loosely bound to the soil particles by weak atomic forces.

Thus by deliberately avoiding dissolving of any bound forms of the metal elements in a soil sample, the metallic/non-metallic ions and isotopes held in a HDRG extractant solution represents only the chemically active or ‘mobile, ionic’ component of each element in the sample. By only measuring these forms of the elements, the HDRG analysis essentially is directly measuring the first ‘signal’ to arrive at the surface from the source at depth.



Ionic elements occur in very low concentrations but can be measured by modern commercially available ICP mass spectrometry analytical instrumentation, delivering data with very high precision and accuracy

HDRG multi-element anomalies are derived from a number of sources and can include anomalous elements from the actual hydrocarbon accumulation migrating toward the surface, supplemented by a contribution of elements from overlying country rock, that are carried upwards within a reducing acidic 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, HDRG can give both higher resolution and better definition thus presenting a more focused geochemical expression of oil and gas pools.

Interpretation typically uses either plans or sections showing a series of customized Prospectivity Mapping Index or mathematical functions (PSI) that combines ionic element responses, isotopic ratios and other measurable parameters that indicate the presence of an active 'acidic/ionic plume. Element and isotope ratios identify specific responses recognized from either previous benchmarking surveys in the area or Digger's proprietary 'fingerprint' database. Specific diagnostic parameters vary depending on individual fields being surveyed and Digger's work has shown that individual PSI functions combining specific groups of parameters are characteristic of individual reservoirs. Prior to the development of an optimum PSI (s) for a survey area, the data are normalized to compensate for land form and regolith, pedogenic processes active at each site, any significant soil chemistry effecting individual element responses and the evidence for ion/acid plume systems. Once the data has been adjusted for these factors, interpretation can proceed.

During its developmental phase, Digger has completed over 50 HDRG orientation surveys, detailed research sampling programs and testing programs on extractant prototypes, many of

which were over existing oil and gas fields. All targets had characteristically sharp PSI anomalies compared to the surrounding background levels, situated vertically above oil and gas accumulations, a completely flat response over dry wells in the same area, and significantly, subdued responses over exhausted production wells. 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 oil wells drilled in southwestern Saskatchewan on the basis of an HDRG geochemical anomaly. Of particular note was the “4-13” discovery well.

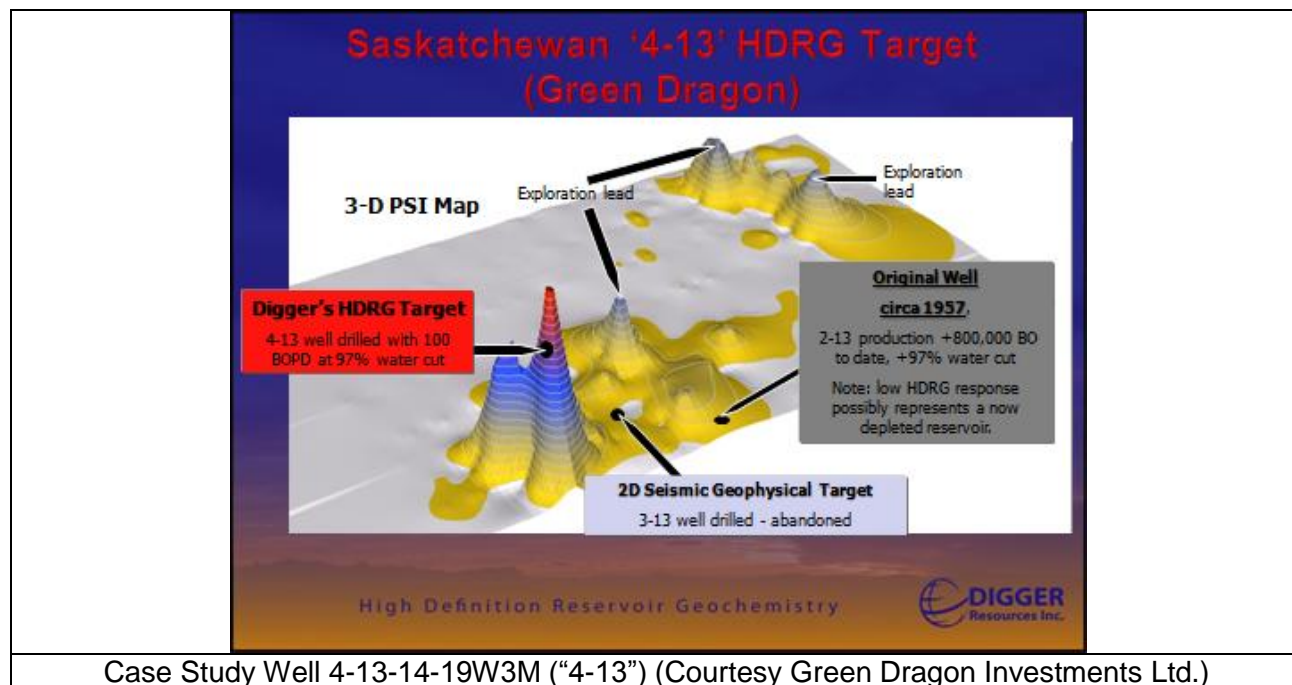
History of the 4-13 Survey:

- Historic Production from 2-13-14-19W3M well (“2-13”) which was drilled in the late 1950’s;
- Well 3-13-14-19W3M was drilled on a seismic target by another party in January 2002 – abandoned;
- HDRG target subsequently drilled by Green Dragon – well 4-13 pump test 100 BOPD @ 97% water cut.

Key Outcomes:

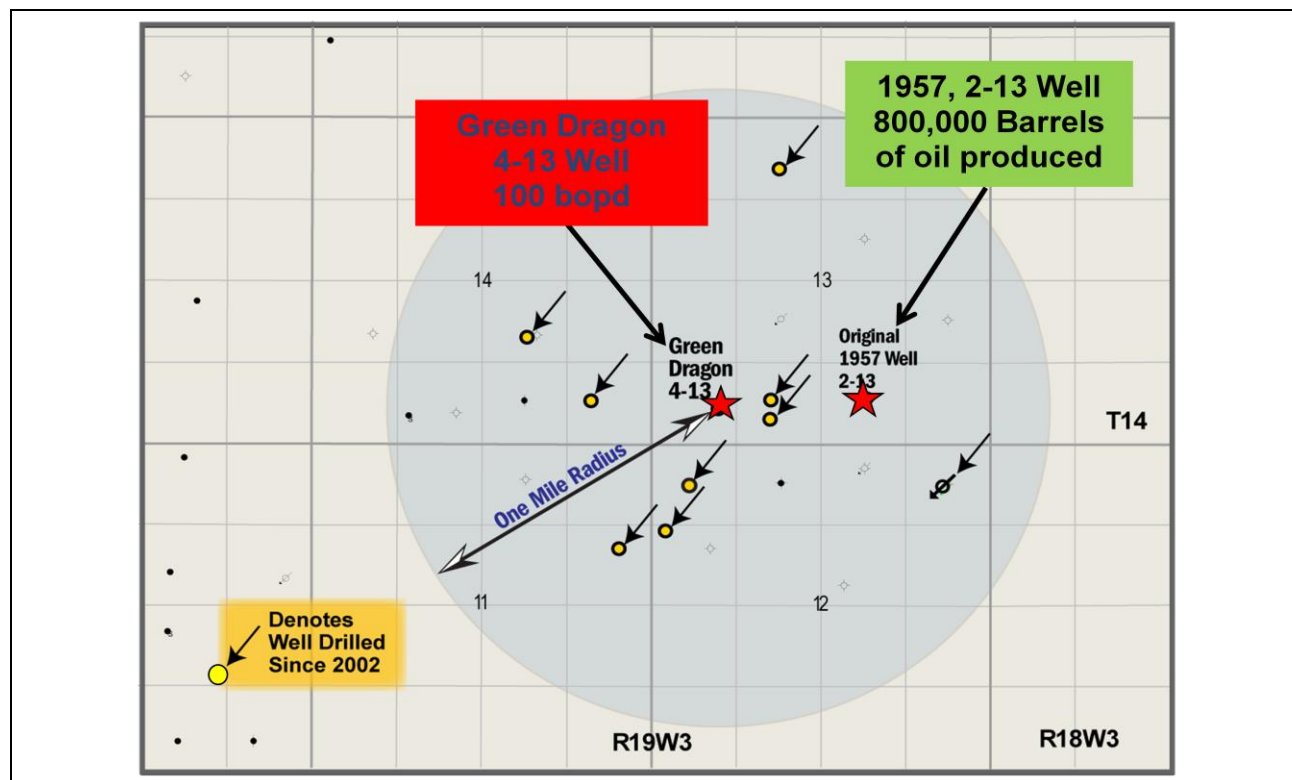
- The 4-13 well HDRG survey identified hydrocarbons which had no significant seismic response.

Note: The weakened HDRG response over the 2-13 well is thought to reflect the depletion of the reservoir production, such observations have also been made over other long-lived ‘depleted’ reservoirs in North America



Since the 4-13 was drilled nine (9) wells have been drilled, based solely on seismic interpretation, within a one (1) mile radius around the 4-13 and in all cases the wells drilled have been dry holes, marginal producers or uneconomic to produce. Initial production from the 4-13, well was 100 barrels (2002) of oil per day and currently produces at 50 barrels of oil per day.





### Target Market

Digger’s management considers oil and gas explorers represent a market opportunity for HDRG. However, because of the reluctance of oil and gas explorers to accept new geochemical technology, compared with more traditional geophysical solutions, the Company’s focus has been on the validation of its HDRG technology by ensuring oil wells were drilled solely on the basis of HDRG anomalies, while identifying other key global markets and demonstrating that its technology was an appropriate technique for varying geological settings and worldwide landscapes.

As the key performance metric of Digger’s HDRG program, Digger initially focused on developing oil and gas targets through a related company Green Dragon (Green Dragon’s sole director is the wife of a Digger director), that drill-tested HDRG generated anomalies.. Green Dragon completed HDRG sampling programs post the drilling of the 4-13 well in 2002 and collected in excess of 2,000 samples; initially road allowance sampling with follow-up in-fill samples collected on farming lands, followed by land acquisition P&NG leases via Crown sales. Four (4) other vertical oil wells drilled solely on the basis of HDRG generated geochemical anomalies, all encountered hydrocarbons in locations without any technical support from seismic or nearby geological information / interpretation. With these drilling outcomes HDRG 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.

Adding to this successful outcome, the company has demonstrated that HDRG is also a viable new technology for application in the Middle East. A program of meetings and marketing workshops and seminars has commenced. It is believed these initiatives have positioned the Company’s HDRG technology as a primary cost effective exploration tool to be used globally by

oil and gas exploration companies. The development of scientific rationales by independent researchers help explain and now contribute to a better understanding of ionic geochemistry, the fundamental technology on which HDRG is based. With increasing depletion of historic reserves, the increasing cost and decreasing success from drilling campaigns, exploration companies are now looking for a new technological advantage – currently HDRG represents the best opportunity to increase drilling success.

The rapid deployment of the Digger’s HDRG technology and its future growth depends in part on its ability to develop profitable strategic alliances. The licensing agreement with the ALS and marketing agreement with ALS Arabia 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. In 2012, 2013 and 2014 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’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. Digger 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.

### **Outlook**

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

The Company closed a non-brokered private placement financing in August 2011 and the gross proceeds of \$400,000 from the private placement were used by the Company to strengthen the corporate balance sheet, to enhance the Company’s marketing efforts of its HDRG technology, to re-pay unsecured advances to related parties and for general working purposes. The Company’s financing has provided Digger with sufficient capital resources to ensure the continuity of its operations over the next twelve (12) months whilst the Company attempts to secure future HDRG sampling contracts.

**Financial Data**

The following table presents consolidated financial data for the years ended July 31 (note 2014 is Q1 and Q2 results only):

<b>Selected Annual Information</b>			
<b>Information from the Consolidated Statements of Operations and Deficit</b>	Six Months ended January 31	Year ended July 31, 2013	Year ended July 31, 2012
Fiscal Year	2014	2013	2012
Revenues	-	-	30,690
Net Income (Loss) and comprehensive loss	(27,878)	(163,720)	6,620
Income(Loss) per share – basic and diluted	(0.002)	(0.014)	0.001
<b>Information from the Consolidated Statements of Cash Flows</b>			
Cash flows relating to operating activities	(35,032)	(51,684)	(14,795)
<b>Information from the Consolidated Balance Sheet</b>			
Cash equivalents and short term investments	42,887	77,919	129,603
Working Capital (deficiency)	39,739	51,842	103,511
Total Assets	44,631	79,850	132,199
Long term debt, including current portion	Nil	Nil	Nil
Total liabilities		-	26,300
Shareholder's equity (Deficiency)	41,207	53,550	105,899

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

<b>Information from the Consolidated Statements of Operations and Deficit</b>	Second Quarter Ended Jan. 31 2014	Second Quarter Ended Jan. 31 2013	Six month period ended January 31 2014	Six month period ended January 31 2013
Revenues & Other Income	-	-	-	-
Net Income (Loss) and comprehensive loss	(13,831)	(44,958)	27,878	(70,873)
Income (Loss) per share – basic and diluted	(0.001)	(0.004)	(0.002)	(0.006)
<b>Information from the Consolidated Statements of Cash Flows</b>				
Cash flows relating to operating activities	(1,603)	(4,975)	(35,032)	(39,084)
<b>Information from the Consolidated Balance Sheet</b>				
Cash equivalents and short term investments	42,887	90,519	42,887	90,519
Working Capital (deficiency)	39,739	86,790	39,739	86,790
Total Assets	44,631	93,024	44,631	93,024
Long term debt, including current portion	Nil	Nil	Nil	Nil
Total liabilities	3,424	4,186	3,424	4,186
Shareholders' equity (Deficiency)	41,207	88,838	41,207	88,838

## Operating Results

### Revenues

Revenues and Other Income for the second quarter ended January 31, 2014 were \$Nil compared to \$Nil for the corresponding period last year. Revenues are derived from HDRG sampling surveys that are undertaken for oil and gas explorers.

Over the last number of years Digger has focused its efforts on developing oil and gas targets through related company Green Dragon that could be drill-tested in the short term solely on the basis of HDRG generated anomalies and the development of a second generation HDRG leach that had the capacity to distinguish between multiple zones and single zones of hydrocarbon potential. This strategy resulted in minimal revenues because of the decision by Digger to limit the marketing of HDRG surveys to third party oil and gas explorers whilst trying to validate HDRG through the drill bit via Green Dragon’s drilling program at Suffield in Saskatchewan. In 2012, 2013 and 2014 presentations were made to oil and gas explorers with a view to opening up the use of HDRG to third party oil and gas operators. Digger’s management is confident that Digger’s strategy and initiatives in regards to the development of HDRG will favourably impact the Company’s future growth and revenues.

### Operating Expenses

For the second quarter of the 2014 fiscal year, ended January 31, 2014, expenses amounted to \$13,831 compared to \$44,958 for the corresponding period last year as set out hereunder:

	Q2 Fiscal 2014	Q2 Fiscal 2013
	\$	\$
<b>EXPENSES</b>		
Share based compensation costs	7,971	34,574
Laboratory analysis	-	-
License fees	-	-
Office and administrative	5,740	7,310
Professional fees	-	2,904
Depreciation and Amortization	120	170
	13,831	44,958

Office and administrative expenses and professional fees consisted of costs of general administrative expenses and costs related to operating as a publicly traded company. Digger did pay any rent for office space, did not have any paid employees or did not pay any administrative or management fees to officers or directors for Q2 fiscal 2014 or fiscal 2013.

### Share-based Compensation

Share based compensation for the period ended January 31, 2014 was \$7,971 as compared to \$34,574 for the same period in 2013. This was as a result of the issuance of the issuance of new options in September 2012. Share-based compensation represents a non-cash charge resulting from applying the fair value method on stock options issued. Under this method, compensation expense related to these programs is recorded in the statement of operations over their respective vesting periods. The 950,000 options were granted to directors and the CFO 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, 2013 the weighted average years to expiry were 4.2. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing

model as explained in note 10 of the audited consolidated financial statements for the year ended July 31, 2013.

#### Depreciation

The Company’s corporate assets were near fully depreciated as at January 31, 2014 and as such depreciation for the period ended January 31, 2014 was \$240 as compared to \$340 for the comparative period ended January 31, 2013.

#### Bad Debt Expense

The Company did not record a bad debt expense for the quarter ended January 31, 2014 or the comparative period ended January 31, 2013.

#### Net Loss and Comprehensive Loss

For the six (6) month period ended January 31, 2014, net loss and comprehensive loss amounted to \$27,878 (\$0.002 per share) compared to net loss and comprehensive loss of \$70,873 (\$0.006 per share) for the same six (6) month period last year. It should be noted that share-based compensation for the six (6) period ended January 31, 2014 was \$15,535 as compared to \$53,812 for the same period in 2013 resultant from the issuance of new options in September 2012.

### Liquidity and Capital Resources

At January 31, 2014, total assets amounted to \$44,631 which compares to total assets of \$93,024 as at January 31, 2013. Working capital stood at \$39,739 at January 31, 2014 compared with \$86,790 as at January 31, 2013. Cash and cash equivalents totaled \$42,887 at January 31, 2014 compared with \$90,519 as at January 31, 2013 and consisted of funds on deposit with a bank and these funds were readily accessible by the Company.

There were no financing activities during the six (6) month period ended January 31, 2014.

To ensure the continuity of its operations, the Company will have to secure future HDRG sampling contracts, financing and related party funding. There can be no assurance that Digger will be successful in its financing efforts or in securing future HDRG sampling contracts. The Company’s liquidity objective is to maintain the capacity to fund development of and market its technology and repay liabilities in a timely and cost-effective manner. The Company’s financing in 2011 provided Digger with sufficient capital resources to ensure the continuity of its operations over the next twelve (12) months whilst the Company attempts to secure future HDRG sampling contracts.

### Quarterly Operating Data

Operating results for each of the past eight quarters are presented in the table below. The Company adopted IFRS on August 1, 2011 with an effective application date of August 1, 2010. This means that comparative figures of the 2014, 2013 and 2012 fiscal year are presented in accordance to IFRS. Our unaudited quarterly consolidated financial statements have not been reviewed by our independent auditors.

	2014		2013			2012		
	Q2(IFRS)	Q1(IFRS)	Q4(IFRS)	Q3(IFRS)	Q2(IFRS)	Q1(IFRS)	Q4(IFRS)	Q3(IFRS)
Revenues & Other Income	-	-	-	-	-	-	-	19,302
Net Income(loss) and comprehensive results	(13,831)	(14,047)	(67,339)	(25,508)	(44,958)	(25,915)	(29,779)	14,036
Per share – basic and diluted	(0.001)	(0.001)	(0.006)	(0.002)	(0.004)	(0.002)	(0.002)	0.001
Weighted average number of common shares outstanding	11,349,935	11,349,935	11,349,935	11,549,035	11,408,410	11,349,035	11,283,285	10,779,035

This MD&A presents financial information by fiscal quarters. The reasons for the fluctuations over the past eight quarters are, for the most part, set out below:

Share-based compensation for the year ended July 31, 2013 was \$111,371 as compared to \$Nil for the same period in 2012 resultant from the issuance of new options in September 2012. Stock compensation for the six (6) month period ended January, 2014 was \$15,535 compared to \$53,812 for the six (6) month period ended January 31, 2013. Share-based compensation represents a non-cash charge resulting from applying the fair value method on stock options issued. Under this method, compensation expense related to these programs is recorded in the statement of operations over their respective vesting periods.

For Q2 fiscal 2014 and for the fiscal year ended July 31, 2013 there were no financing activities. For the fiscal year ended July 31, 2012, net cash flows provided by financing activities amounted to \$400,000 as a result of the issuance of shares.

### Account Receivables

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

### Insurance and Risk Management

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

### Products and Technologies

A HDRG extractant solution in an ALS analytical laboratory is applied to soil samples to release elements absorbed to the soils. These absorbed elements are the keys to better locate of oil and gas deposits. Using the HDRG proprietary Leachant Digger routinely defines 58 elements, Isotopes, H+ concentration, Mass susceptibility, Electrical Conductivity that are measured. This data is normalized creating Anomaly to Background (“Response Ratios”) for each data set.

Response Ratios for all data is benchmarked against existing well control or historical data. The result is a strong multi-element surface geochemical anomaly developed over hydrocarbon accumulations. The ability to detect coincident, multi species anomalies with very high ‘signal to noise’ ratios that are reproducible over time, places HDRG in a unique position as an exciting exploration tool for new oil and gas reserves. Digger will continue to seek to develop and exploit its proprietary HDRG technology.

### Related Party Transactions

The Company’s related parties consist of directors and officers and companies controlled by directors and officers of the Company. There were no transactions with related parties during the period.

### Non-IFRS Measurements

In this MD&A, the Company’s management uses a measure that is not compliant with IFRS. This measure, gross profit excluding amortization, supplies useful and complementary information to, among other things, assess the Corporation’s financial performance, but does not have a standardized meaning under IFRS. Moreover, this measure is not likely to be comparable to similar measures used by other issuers.

Management believes EBITDA (Earnings Before Interest, Income Taxes, Depreciation and Amortization) 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 (\$51,669) for the year ending July 31, 2013 compared to \$7,576 in the year ending July 31, 2012. The adjusted EBITDA designates the net income before items not affecting cash, the foreign exchange gain or loss, financial expenses and interest income and income taxes. This measure supplies useful and complementary information which allows amongst others to evaluate profitability and cash flows provided by operations.

The following table explains the reconciliation of the adjusted EBITDA to the net income.

	2013	2012
<b>Net Income(Loss)</b>	(163,720)	6,620
Amortization of property and equipment	680	956
Amortization of intangible assets		
Amortization of other assets	111,371	
Share-based payment expense		
Foreign exchange loss (gain)		
Financial results (financial expenses and interest income)		
Income taxes		
<b>Adjusted EBITA</b>	(51,669)	7,576

### Contractual Obligation

Effective October 5, 2010 ALS granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. Digger is obliged pay to ALS an ongoing licensing fee of AUD \$10 per sample analyzed for exclusivity of use for the leachant and to use ALS as its

sole analytical service provider. The term of the agreement with ALS was for three years with two renewable terms thereafter of five years each based on successful achievement of performance objectives as follows:

- a) In the last full year of the first three year license term no less than 5,000 samples are delivered by Digger to ALS for analysis using a partial leach analytical technique. ALS and Digger subsequently agreed mutually to extend the original three year period for an additional period which will end on October 31, 2014.
- b) In the last full year of the first five year renewal period no less than 20,000 samples are delivered by Digger to ALS for analysis using a partial leach analytical technique.

October 5, 2013 through to October 31, 2014	5,000 samples to be delivered to ALS for analysis to extend license agreement for 5 years to October 4, 2018.
October 31, 2017 through to October 31, 2018	20,000 samples to be delivered to ALS for analysis to extend license agreement 5 years to October 31, 2023.

In the event that Digger fails to meet the commitments set out in the table above, and provided that ALS and Digger do not otherwise mutually agree to extend the term of the agreement to allow Digger to meet said commitments, the agreement between ALS and Digger will expire without penalty to Digger for non-performance.

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

#### Off Balance Sheet Arrangements

The Company does not currently utilize any off balance sheet arrangements to enhance liquidity and capital positions of Digger or for any other purpose.

#### Subsequent Events

There are no subsequent events to report.

#### Proposed Transactions

An HDRG orientation survey was conducted for a fully integrated international petroleum company. The HDRG orientation survey consisted of 198 samples, was completed in late 2011 and resulted in net revenues to Digger of CDN \$30,690. The goal of this HDRG survey was to template oil and gas accumulations in the area to see if there was a significant geochemical signal at surface that matched the subsurface hydrocarbon distribution. Digger was advised by the fully integrated international petroleum company that the HDRG survey matched the subsurface hydrocarbon distribution. A proposed follow-up Phase 1 HDRG sampling program of



3,270 samples is still under consideration and if the sample program was to go forward this would result in net revenues to Digger of approximately CDN \$500,000.

### **Disclosure Controls And Procedures And 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 the Company 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 International Financial Reporting Standards (“IFRS”). Instead, an optional form of certification has been made available to TSX Venture Exchange listed companies and is being used by the Company’s certifying officers. 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 interim MD&A and financial statements;
- ii) they have determined that 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 interim filings, together with the other financial information included in the interim 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 IFRS constitutes fair presentation under securities laws.

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

As at January 31, 2014, Digger had a shareholder’s equity of \$41,207 compared with a shareholder’s equity of \$88,838 at January 31, 2013.

The Company’s common shares trade on the NEX board of the TSX Venture Exchange (DIG.H) and as at January 31, 2014 the Company had 11,349,035 (11,349,035 at March 11, 2014) fully issued and outstanding common shares.

The following common share stock options are issued and outstanding:

- As at January 31, 2014, a total of 950,000 common share stock options (950,000 at March 11, 2013) were outstanding to directors and officers under the Company’s Share Option Plan with an exercise price of \$0.15 per share and with an expiration date of September 21, 2017.

OUTSTANDING SHARE CAPITAL March 11, 2014	Class A common shares
Class A common shares outstanding	11,349,035
Convertible instruments Options outstanding	950,000
	12,299,035

### Investor Relations Activities

The Company did not engage any outside consultants to provide investor relations activities for the six (6) months ended January 31, 2014.

### Changes In Accounting Policies

The Company will monitor the development of the IFRS standards and change its accounting policies accordingly.

#### New IFRS Pronouncements

At the date of authorization of the condensed interim financial statements, the ISAB and IFRIC have issued certain new and revised Standards and Interpretations which are not yet effective for the relevant reporting period. Excepting IFRS 9 Financial Instruments the following standards, amendments to and interpretations of existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after January 1, 2013 and January 1, 2014:

i) Financial Instruments

In October 2010, the IASB issued IFRS 9, *Financial Instruments (“IFRS 9”)*. This standard is effective for periods beginning on or after January 1, 2015 and is part of a wider project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset or liability. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The extent of the impact of adoption of IFRS 9 has not yet been determined.

ii) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements (“IFRS 10”)*. This standard is effective for periods beginning on or after January 1, 2013 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The adoption of this standard did not have a significant impact on these condensed consolidated interim financial statements.

iii) Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements (“IFRS 11”)*. This standard is effective for periods beginning on or after January 1, 2013 and establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 requires a party to assess the rights and

obligations arising from an arrangement in determining whether an arrangement is either a joint venture or a joint operation. Joint ventures are to be accounted for using the equity method while joint operations will continue to be accounted for using proportionate consolidation. The adoption of this standard did not have a significant impact on these condensed consolidated interim financial statements.

iv) Disclosure of Interest in Other Entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interest in Other Entities* (“IFRS 12”). This standard is effective for periods beginning on or after January 1, 2013 and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 integrates and makes consistent the disclosure requirements for a reporting entity’s interest in other entities and presents those requirements in a single standard. There was no impact on the Company’s interim financial statements upon adoption of the above standards on January 1, 2013.

v) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* (“IFRS 13”). This standard is effective for periods beginning on or after January 1, 2013 and provides additional guidance where IFRS requires fair value to be used. IFRS 13 defines fair value, sets out in a single standard a framework for measuring fair value and establishes the required disclosures about fair value measurements. The Company does not expect the adoption of this standard to have an impact on its financial statements. There was no impact on the Company’s interim financial statements upon adoption of the IFRS 13 on January 13, 2013.

vi) Presentation of Other Comprehensive Income

In June 2011, the IASB issued an amended version of IAS 1, *Presentation of Financial Statements* (IAS 1). This amendment is effective for annual periods beginning on or after July 1, 2012 and requires companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income (OCI) that may be reclassified to earnings. Revised IAS 1 also reaffirms existing requirements that items in OCI and earnings should be presented as either a single statement or two consecutive statements. The adoption of these amendments to IAS 1 will not have a material impact on the financial statements.

vii) Financial Assets and Financial Liabilities

In December 2011, the IASB issued amendments to IAS 32, *Financial Instruments: Presentation* (IAS 32) and IFRS 7, *Financial Instruments: Disclosures* (IFRS 7). The amendments are effective for periods beginning on or after January 1, 2013 for IFRS 7 and January 1, 2014 for IAS 32 and are to be applied retrospectively. These amendments clarify matters regarding offsetting financial assets and financial liabilities as well as related disclosure requirements. The Company adopted the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. These amendments do not have a material impact on the financial statements.

There are no other IFRSs or IFRIC interpretations that have been issued and are not yet effective that would be expected to have a material impact on the Company.

## Financial Instruments And Financial Risk Management

The Company’s financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company’s objectives and risk tolerance, while

maintaining an appropriate risk/reward balance and protecting the Company’s consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall exploration and development strategy, diversifying risk, mitigation through preventive controls, and transferring risk to third parties.

#### Fair Value

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

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

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

#### Credit Risk

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

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

The aggregate gross credit risk exposure at January 31, 2014 was \$43,163 (July 31, 2013 - \$78,142), and was comprised of \$276 (July 31, 2013 - \$223) of GST recoverable and \$42,887 (July 31, 2013 - \$77,919) in Cash and equivalents held with a Canadian financial institution with a “AA” credit rating.

#### Market Risk

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

##### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company’s financial assets and liabilities and operating costs are principally denominated in Canadian dollars.

##### Interest Rate Risk

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

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

#### Liquidity Risk

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

#### Sensitivity Analysis

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

#### **Disclaimer**

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

## Corporate Information

### Directors

*Norman Bradford Yeo (1), B.A., LL.B. of Calgary, Alberta*

*John Burt Wilson (1), ACIB, TEP of Jersey, Channel Islands*

*Leonard Burchell, FCMA of Capetown, South Africa*

*Graeme Wallace (1), B.A., M.Sc., Ph.D. of Toronto, Ontario*

*Russell Birrell, B.Sc., M.Sc. of Jeddah, Kingdom of Saudi Arabia*

*(1) Member of the Audit Committee*

### Officers

*Norman Bradford Yeo, B.A., LL.B. - President and Chief Executive Officer*

*Desmond K. DeFreitas, C.A. - Chief Financial Officer*

*Russell Birrell, B.Sc., M.Sc. – VP Technical Development*

### Registrar and Transfer Agent

*Computershare Trust Company of Canada, Vancouver, BC*

### Auditors

*PricewaterhouseCoopers LLP, Calgary, AB*

### Legal Counsel

*Boughton Law, Vancouver, BC*

### Stock Exchange Listing

*NEX Board, TSX Venture Exchange*

*Trading Symbol: DIG.H*

### Digger Resources Inc.

*Calgary, AB*

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