# DIGGER RESOURCES INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS ENDED OCTOBER 31, 2013 AND 2012

[December 5, 2013]

# DIGGER RESOURCES INC.
# MANAGEMENT DISCUSSION AND ANALYSIS
# FIRST QUARTER ENDED OCTOBER 31, 2013

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 first quarter ended October 31, 2013 by comparing it to those of the first 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 year ended October 31, 2013. The Company's audited consolidated financial statements for the year ended July 31, 2013 and unaudited interim condensed consolidated financial statements for the period year ended October 31, 2013 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 ("IFRAC"). 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 December 5, 2013 and these documents, along with additional information about the Company, are available at www.diggerresources.com and 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 to assist oil and gas explorers in the environmentally sound discovery and development of new oil and natural gas reserves through the detection of metallic and non-metallic ions in near surface soil profiles. ALS has introduced Digger and Digger has presented its HDRG technology to a number of ALS clients in the Middle East and in Australia. In that regard an HDRG orientation survey was conducted for a fully integrated international petroleum company in late 2011. The HDRG orientation survey consisted of 198 samples and resulted in net revenues to Digger of $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 under consideration and if the sample program is to go forward this would result in net revenues to Digger of $500,000. In addition to the foregoing Digger has made seven (7) presentations to oil and gas producers / explorers in the Middle East over the last couple of months. There have expressions of interest which might well translate into HDRG surveys.

Digger maintains an active research and development program in conjunction with the Green Dragon Investments Ltd. ("Green Dragon") ongoing drill testing and validation programs in southwestern Saskatchewan. Continuing work in the Suffield District in southwestern Saskatchewan suggests that the highest HDRG responses at surface appear to be reflecting zones of maximum hydrocarbon accumulation that correspond to structural and stratigraphic traps thereby identifying the optimum target position for a well to be located. As earlier reported Green Dragon drilled its 3-1-14-19W3M vertical well, its 15-36-13-19W3M vertical well and its 1-17-14-18W3M vertical well solely on the basis of an HDRG geochemical anomaly. In all cases drilling intersected a pay zone associated with the Lower Shaunavon sands. The Lower Shaunavon Formation had not previously been an exploration target in this immediate area.

## Company Profile

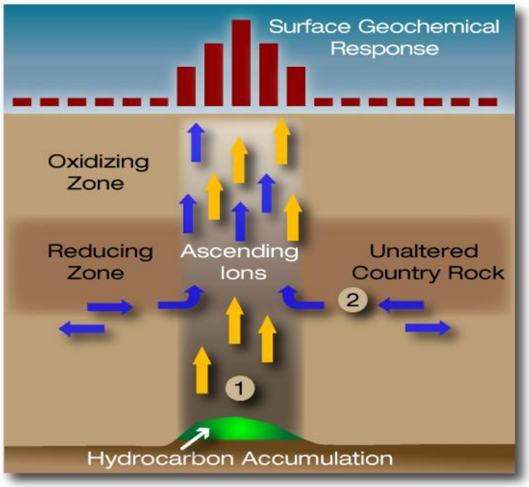
The Company's principal business activity is, through the application of its HDRG ionic soil technology, the development of an effective exploration technique as an adjunct to existing seismic methods and to assist in the environmentally sound discovery and development of new oil and natural gas reserves through the detection of metallic and non-metallic ions in near surface soil profiles. The Company is a reporting issuer in Alberta and British Columbia and trades on the NEX Board of the TSX Venture Exchange under the symbol "DIG.H".

Geophysics, principally seismic techniques, has and will continue to provide the primary methods for discovery of sub-surface oil and gas. Seismic is without peer in high-resolution structural mapping over a depth range measured in kilometres. It is however not strongly influenced by the presence or absence of petroleum. Surface geochemistry is an additional tool in determining the presence of hydrocarbons at depth. Detection of hydrocarbon accumulations by surface geochemistry has been discussed in a number of publications. The fundamental theory behind using surface geochemistry to indicate the presence of petroleum at depth is not well understood, but is predicated on the empirical observations that hydrocarbons migrate to the surface through seemingly impervious barriers and leave their signatures in soils.

In the past it has been difficult to measure these anomalies both accurately and with a high degree of repeatability, which has severely hampered its applicability and value for hydrocarbon exploration. HDRG works by detecting metallic and non-metallic ions that form geochemical signatures directly above oil and gas accumulations. The technology is based on the collection and analysis of near soil samples using a proprietary Leachant and ultra low-level inductively coupled plasma analyses. The metallic and non-metallic ion geochemistry employed by Digger is a very different approach to the analysis of metals and non-metals in soils and involves the use of extremely weak chemicals rather than the conventional aggressive acid or fire assay techniques. Conventional techniques digest soils releasing metals that are chemically bound by strong atomic forces, either to each other or to clays and other mineral particles in the soil sample. By contrast the mobile metal ion extractant, Leachant, used by Digger contain chemicals to detach and hold in solution only the metallic/non-metallic ions that are loosely bound to the soil particles by weak atomic forces. This extractant deliberately avoids dissolving the bound forms of the metals and the metallic/non-metallic ions held in solution represent the chemically active or 'mobile' component of each element in a soil sample. These mobile forms occur in very low concentrations that can now be readily measured by modern commercially available inductively coupled plasma mass spectrometry analytical instrumentation. This delivers data with very high precision and accuracy, provided that the solution delivered to the machine is dilute and clean. Digger's HDRG Leachant meets these criteria particularly well.

The HDRG anomaly is derived a number of sources including anomalous elements from hydrocarbon accumulation migrating toward the surface and migration of country rock elements within a reducing vertical ionic plume or path. By deliberately targeting only the recently arrived or mobile forms of metal and non-metallic elements, prior to chemical binding and dispersion and physical spreading across the landscape, mobile ion geochemistry used by Digger can give both higher resolution and better definition thus presenting a more focused geochemical expression of oil and gas pools. Output for interpretation is typically an index or mathematical function derived from a group elements that quantify specific responses recognized as typifying hydrocarbon accumulation at depth. The key elements groups vary depending on the specific fields being surveyed. A Petroleum Significance Indicator Element Group ("PSI"), representing specific group(s) of elements recognized as characteristic of individual reservoirs, are combined into an index value. Prior to the development of the optimum PSI for a survey area the data is 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 migration. Once the data has been adjusted for these factors, interpretation can proceed.

Over the last ten (10) plus years Digger has completed upwards of fifteen (15) HDRG orientation surveys over existing oil and gas fields. Found in all cases was a sharp anomaly, over background, residing vertically over the oil and gas accumulations and a completely flat response over the dry wells in the same area. These anomalies were consistent with patterns characteristic with the oil traps discovered in the 4-13-14-19W3M ("4-13") and the 3-1-14-19W3M Green Dragon Investment Ltd. ("Green Dragon") oil wells drilled in southwestern Saskatchewan on the basis of an HDRG geochemical anomaly.

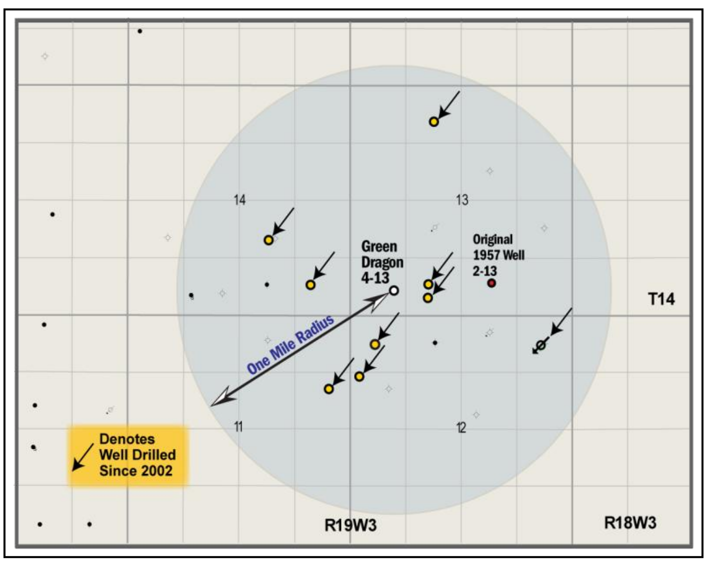



**This diagram shows an ionic plume, generated over oil & gas pools, migrating vertically to the surface**

**Using a proprietary mobile ion leach (HDRG), metallic and non-metallic ions are measured and interpreted to accurately define the anomalies, and thus pinpoint the location of buried oil & gas accumulations at depth.**

## Target Market

Whilst Digger's management considers the full market opportunity for HDRG to be suitable for all oil and gas explorers, Digger initially focused on developing oil and gas targets through related company Green Dragon, Green Dragon's sole director is the wife of a Digger director, that drill-tested HDRG generated anomalies. Because of the reluctance of the oil and gas explorers to accept geochemical applications, as opposed to geophysical solutions, in the search for oil and gas reserves the Company's focus was on the validation of its HDRG technology by ensuring that oil wells got drilled solely on the basis of HDRG anomalies as the key performance metric of Digger's HDRG program. Green Dragon completed HDRG sampling programs post the drilling of the 4-13 in 2002 and from 2003 through 2008 Green Dragon collected 2,000 samples; initially road allowance sampling with follow-up in-fill samples collected on farming lands and acquired P&NG leases via Crown sales. Green Dragon paid Digger CDN $200 per HDRG sample analyzed. As per the schematic below 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.




In addition to the 4-13, initial production from that well was at 100 barrels of oil per day and the 4-13 is still producing at 50 barrels of oil per day, four (4) other vertical oil wells were drilled solely on the basis of HDRG generated geochemical anomalies and were not supported by any seismic or nearby geological information / interpretation. With successful 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. This has positioned the Company's HDRG technology as a primary cost effective exploration tool to be used by participating companies for oil and gas exploration.

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 2011, 2012, and 2013 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 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 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.

## Outlook

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## Financial Data

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

| **Selected Annual Information** | | | |
|---|---|---|---|
| **Information from the Consolidated Statements of Operations and Deficit** | Three Months ended October 31, 2013 | Year ended July 31, 2013 | Year ended July 31, 2012 |
| Fiscal Year | 2014 | 2013 | 2012 |
| Revenues | - | - | 30,690 |
| Net Income (Loss) and comprehensive loss | (14,047) | (163,720) | 6,620 |
| Income(Loss) per share – basic and diluted | (0.001) | (0.014) | 0.001 |
| | | | |
| **Information from the Consolidated Statements of Cash Flows** | | | |
| | | | |
| Cash flows relating to operating activities | (33,429) | (51,684) | (14,795) |
| | | | |
| **Information from the Consolidated Balance Sheet** | | | |
| | | | |
| Cash equivalents and short term investments | 44,490 | 77,919 | 129,603 |
| Working Capital (deficiency) | 45,479 | 51,842 | 103,511 |
| Total Assets | 47,598 | 79,850 | 132,199 |
| Long term debt, including current portion | Nil | Nil | Nil |
| Total liabilities | 531 | - | 26,300 |
| | | | |
| Shareholder's equity (Deficiency) | 47,067 | 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.

| **Information from the Consolidated Statements of Operations and Deficit** | First Quarter Ended Oct. 31 | First Quarter Ended Oct. 31 |
|---|---|---|
| | 2013 | 2012 |
| Revenues & Other Income | - | - |
| Net Income (Loss) and comprehensive loss | (14,047) | (25,915) |
| Income (Loss) per share – basic and diluted | (0.001) | (0.002) |
| | | |
| **Information from the Consolidated Statements of Cash Flows** | | |
| | | |
| Cash flows relating to operating activities | (33,429) | (34,109) |
| | | |
| **Information from the Consolidated Balance Sheet** | | |
| | | |
| Cash equivalents and short term investments | 44,490 | 95,494 |
| Working Capital (deficiency) | 45,479 | 97,004 |
| Total Assets | 47,598 | 99,222 |
| Long term debt, including current portion | Nil | Nil |
| Total liabilities | 531 | Nil |
| | | |
| Shareholders' equity (Deficiency) | 47,067 | 99,222 |

## Operating Results

Revenues

Revenues for the first quarter ended October 31, 2013 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 in 2009 and into 2010 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 2011, 2012 and 2013 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. As earlier noted at the behest of ALS Arabia an HDRG orientation survey for a fully integrated international petroleum company was completed in November 2011. The HDRG orientation survey consisted of 198 samples 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 robust 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 significant 2013 follow-up HDRG survey is currently under consideration by the fully integrated international petroleum company. 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 first quarter of the 2014 fiscal year, ended October 31, 2013, expenses amounted to $14,047 compared to $25,915 for the corresponding period last year as set out hereunder:

| | Q1 Fiscal 2014 | Q1 Fiscal 2013 |
|---|---|---|
| | $ | $ |
| EXPENSES | | |
| Share based compensation costs | 7,564 | 19,238 |
| Laboratory analysis | - | - |
| License fees | - | - |
| Office and administrative | 4,637 | 5,192 |
| Professional fees | 1,836 | 1,315 |
| Depreciation and Amortization | 120 | 170 |
| | 14,047 | 25,915 |

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, have any paid employees or pay any administrative or management fees to officers or directors for Q1 fiscal 2014 or fiscal 2013.

Share-based Compensation
Share based compensation for the period ended October 31, 2013 was $7,564 as compared to $19,238 for the same period in 2012. This was as a result of the issuance of no new options in 2013 and 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 are 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 October 31, 2013 and as such depreciation for the period ended October 31, 2013 was $120 as compared to $170 for the comparative period ended October 31, 2012.

Bad Debt Expense
The Company did not record a bad debt expense for the quarter ended October 31, 2013 or the comparative period ended October 31, 2012.

## Net Loss and Comprehensive Loss

For the three (3) month period ended October 31, 2013, net loss and comprehensive loss amounted to $14,047 ($0.001 per share) compared to net loss and comprehensive loss of $25,915 ($0.002 per share) for the same three (3) month period last year.

## Liquidity and Capital Resources

As at October 31, 2013, total assets amounted to $47,598 which compares to total assets of $99,222 as at October 31, 2012. Working capital stood at $45,479 as at October 31, 2013 compared with $97,004 as at October 31, 2012. Cash and cash equivalents totaled $44,490 as at October 31, 2013 compared with $95,494 as at October 31, 2012 and consisted of funds on deposit with a bank and these funds were readily accessible by the Company. This decline in working capital was as a result of supporting the Company's operations over fiscal 2013 and Q1 fiscal 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 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** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Q1(IFRS)** | **Q4(IFRS)** | **Q3(IFRS)** | **Q2(IFRS)** | **Q1(IFRS)** | **Q4(IFRS)** | Q3(IFRS) | Q2(IFRS) |
| Revenues & Other Income | - | - | - | - | - | - | 19,302 | 30,690 |
| Net Income(loss) and comprehensive results | (14,047) | (67,339) | (25,508) | (44,958) | (25,915) | (29,779) | 14,036 | 8,049 |
| Per share – basic and diluted | (0.001) | (0.006) | (0.002) | (0.004) | (0.002) | (0.002) | 0.001 | 0.001 |
| Weighted average number of common shares outstanding | 11,349,935 | 11,349,935 | 11,549,035 | 11,408,410 | 11,349,035 | 11,283,285 | 10,779,035 | 10,552,610 |

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 three (3) month period ended October 31, 2013 was $7,564 compared to $19,238 for the three (3) month period ended October 3, 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.

For Q1 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 |
|---|---|---|
| **Net Income(Loss)** | (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 | | |
| **Adjusted EBITA** | (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 this sample program should go forward this will 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 October 31, 2013, Digger had a shareholder's equity of $47,067 compared with a shareholder's equity of $99,222 at October 31, 2012.

The Company's common shares trade on the NEX board of the TSX Venture Exchange (DIG.H) and as at October 31, 2013 the Company had 11,349,035 (11,349,035 at December 5, 2013) fully issued and outstanding common shares. The following common share stock options and share purchase warrants are issued and outstanding:

- As at October 31, 2013, a total of 950,000 common share stock options (950,000 at December 5, 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<br>December 5, 2013 | Class A common shares |
|---|---|
| Class A common shares outstanding | 11,349,035 |
| Convertible instruments<br>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 three (3) months ended October 31, 2013.

## Critical Accounting Estimates

The Company's accounting policies are described in Note 4 in audited consolidated financial statements for the fiscal year ended July 31, 2013. Certain of these policies involve critical accounting estimates as they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Significant areas requiring the use of management estimates include, but are not limited to, the valuation of share-based compensation transactions, the valuation of purchase warrants issued on financings, deferred income tax assets and liabilities and accrued liabilities and contingencies. The uncertainties related to these areas could significantly impact the Company's results of operations, financial condition and cash flows.

<u>Future income taxes</u>
The company uses the asset and liability method of recording income taxes. This method recognizes the future income tax inflows and outflows that will result whenever the carrying amount of an asset or liability is recovered or settled.

<u>Going Concern Uncertainty</u>
The annual audited consolidated financial statements have been prepared in accordance with

IFRS on a going concern basis, which contemplates the realization of assets and payments of liabilities in the ordinary course of business. However, the use of such principles may not be appropriate because there is a significant doubt surrounding the ability of the Company to continue as a going concern as the Company has a negative cash flow from operations as at October 31, 2013 (see Note 2 to the financial statements – Going concern assumption).

The Company is still looking for external markets for its HDRG technology. Management is confident that by the end of fiscal 2014 the Company will see advancement in the use of HRDG technology and that Digger will be able to raise funds through increased HDRG surveys on a fee for service basis and obtain additional equity financing to further develop and market its HDRG technology to vendors. While there can be no assurance that these initiatives will be successful, management believes that future contracts and management and related party funding will contribute adequate cash flow.

These financial statements do not reflect any adjustments to the carrying value of assets, liabilities and reported revenue and expenses that might be necessary should the Company be unable to generate the necessary capital and continue as a going concern. Such adjustments may be material.

Risk And Uncertainty

The materialization of any of the following risks may have an impact on the activities of the Company and a negative impact on its financial position and operating results. In that event, the price of the Company's common shares may decrease. As noted above the financial statements have been prepared on a going concern basis certain adverse conditions and the events detailed hereunder could cast doubt on the validity of this assumption:

Additional Financing

To the extent that external sources of capital, including the issuance of additional common shares become limited or unavailable the Company's ability to make necessary capital investments to maintain and develop its HDRG technology and meet its obligations will be impaired. Digger closed a non-brokered private placement in August 2011 by issuing 2,000,000 common share units at a price of CDN $0.20 per unit for gross proceeds of CD $400,000. Each unit consists of one common share of Digger and one common share purchase warrant, each warrant entitling the holder to purchase one common share of Digger at an exercise price of CDN $0.26 per share until February 13, 2013 at which time the purchase warrants expired. The gross proceeds 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.

Competing Technologies

The market for Digger's HDRG technology is still emerging and growth and demand for, and acceptance of HDRG by oil and gas explorers remains uncertain. In addition, other emerging technologies may impact the viability of the market for HDRG. Digger's success will depend on its ability to keep pace with technological and marketplace change and to introduce, on a timely and cost effective basis HDRG surveys that will satisfy potential customer requirements and achieve market acceptance.

Dependence on Key Personnel

The Company has a small management team and the loss of a key individual or the inability to attract qualified personnel in the future could materially and adversely affect Digger's business.

Strategic Alliances
The rapid deployment of the Company's technology and its future growth depend in part on its ability to develop profitable strategic alliances. Failure by Digger to develop such strategic alliances could adversely affect its business activities, revenues, financial position and operating results.

Distribution Network
Growth in Digger's business depends in large part on its ability to develop well targeted marketing and distribution channels, increase its number of points of sale and attract new customers in both North America and worldwide. Failure by the Company to do so could adversely affect its business activities, revenues, financial position and operating results.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Stock-based compensation plan
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 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 annual consolidated financial statements for the year ended July 31, 2013. Under this method, the fair-value of stock options granted is measured at estimated fair-value at the grant date and recognized over the vesting period.

Purchase Warrants
The fair value of purchase warrants, issued in conjunction with common share financings, is measured at date of issue using the Black-Scholes valuation model as explained in note 5 h) of the audited consolidated financial statements for the year ended July 31, 2013.

## New Standards and Interpretations Not Yet Adopted

As earlier reported a number of new standards, interpretations and amendments to existing standards were not yet effective for the year ended July 31, 2013, and have not been applied in preparing these unaudited interim condensed consolidated financial statements for the period year ended October 31, 2013. 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:

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 extent of the impact of adoption of IFRS 10 has not yet been determined.

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 extent of the impact of adoption of IFRS 11 has not yet been determined.

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. The Company does not expect the adoption of this standard to have an impact on its financial statements.

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.

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 intends to adopt 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 and does not expect the amendments to 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 Other Instruments

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 October 31, 2013 was $46,010 (July 31, 2013 - $78,142), and was comprised of $1520 (July 31, 2013 - $223) of GST recoverable and $44,490 (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*

### Banker

*HSBC Bank Canada, Calgary, Alberta*

### Stock Exchange Listing

*NEX Board, TSX Venture Exchange*

*Trading Symbol: DIG.H*

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