

Financial Statements of

Digger Resources Inc.

Three Months ended October 31, 2009
(Unaudited)

NOTICE FOR NATIONAL INSTRUMENT 51-102

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

Dated: December 15, 2009

"Norman Yeo" (signed)
President & Chief Executive Officer

DIGGER RESOURCES INC.
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 2009
(Unaudited)

	October 31 2009 \$	July 31 2009 \$
ASSETS		
CURRENT		
Cash	586	399
Accounts receivable	1,385	510
	1,971	909
CAPITAL ASSETS (note 5)	1,351	1,439
TECHNOLOGY DEVELOPMENT COSTS (note 6)	6,692	7,647
	10,014	9,995
LIABILITIES		
CURRENT		
Accounts payable	12,155	26,755
Advances from affiliated companies	284,359	267,168
	296,514	293,923
SHAREHOLDERS' DEFICIENCY		
CAPITAL STOCK (note 8)	4,435,884	4,435,884
CONTRIBUTED SURPLUS (note 10)	1,827,833	1,827,833
DEFICIT	(6,550,217)	(6,547,645)
	(286,500)	(283,928)
	10,014	9,995

See accompanying notes

On behalf of the Board

"Norman Yeo"
Director

"Graeme Wallace"
Director

DIGGER RESOURCES INC.
CONSOLIDATED STATEMENT OF LOSS
COMPREHENSIVE LOSS AND DEFICIT
THREE MONTHS ENDED OCTOBER 31, 2009
(Unaudited)

	Three Months Ended October 31		Year To Date Ended October 31	
	2009 \$	2008 \$	2009 \$	2008 \$
REVENUE				
Contract sampling	—	30,800	—	30,800
EXPENSES				
Laboratory analysis	—	5,942	—	5,942
Office and administrative	1,529	1,363	1,529	1,363
Professional fees	—	1,250	—	1,250
Stock-based compensation	—	11,312	—	11,312
Amortization	1,043	1,075	1,043	1,075
	<u>2,572</u>	<u>20,942</u>	<u>2,572</u>	<u>20,942</u>
NET AND COMPREHENSIVE INCOME (LOSS)	(2,572)	9,858	(2,572)	9,858
DEFICIT, BEGINNING OF PERIOD	<u>(6,547,645)</u>	<u>(6,356,002)</u>	<u>(6,547,645)</u>	<u>(6,356,002)</u>
DEFICIT, END OF PERIOD	<u>(6,550,217)</u>	<u>(6,346,144)</u>	<u>(6,550,217)</u>	<u>(6,346,144)</u>
INCOME (LOSS) PER SHARE – Basic and diluted	<u>(0.001)</u>	<u>0.001</u>	<u>(0.001)</u>	<u>0.001</u>

See accompanying notes

DIGGER RESOURCES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED OCTOBER 31, 2009
(Unaudited)

	Three Months Ended October 31		Year To Date Ended October 31	
	2009 \$	2008 \$	2009 \$	2008 \$
OPERATING ACTIVITIES				
Net income (loss)	(2,572)	9,858	(2,572)	9,858
Items not affecting cash:				
Stock-based compensation	—	11,312	—	11,312
Amortization	1,043	1,075	1,043	1,075
	(1,529)	22,245	(1,529)	22,245
Net change in non-cash working capital items	1,716	(22,588)	1,716	(22,588)
	187	(343)	187	(343)
INCREASE (DECREASE) IN CASH	187	(343)	187	(343)
CASH, BEGINNING OF PERIOD	399	590	399	590
CASH, END OF PERIOD	586	247	586	247

See accompanying notes

Digger Resources Inc.

Notes to Consolidated Financial Statements

October 31, 2009(Unaudited)

1. Basis of presentation and going concern

Digger Resources Inc. (“Digger” or the “Company”) principal business is, through the application of its High Definition Reservoir Geochemistry (“HDRG”) technology, the development of an effective exploration technique as an adjunct to existing seismic methods and to assist in the environmentally sound discovery and development of new oil and natural gas reserves through the detection of metallic and non-metallic ions in near surface soil profiles.

The interim financial statements of Digger have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended July 31, 2009. Certain information and footnote disclosure normally included in the annual financial statements have been condensed or omitted. Accordingly, these interim financial statements should be read in conjunction with the financial statements and the notes thereto in the Company’s annual report for the year ended July 31, 2009.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles as applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. The Company requires financing for working capital and the development and marketing of its HDRG technology. The Company’s continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict with certainty whether financing efforts will be successful or if the Company will obtain profitable levels of operations.

Management has made the necessary estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in the preparation of the financial statements. Actual results could differ from those estimates.

2. Nature of operations

Digger is engaged in the business of testing a process for locating oil and gas deposits. The rights to these processes were obtained under a 30-year Technology Purchase and Consulting Agreement which was effective March 2, 1999. The Company intends on exploiting this technology in pursuit of oil and gas deposits. The related accounting policy for the technology development costs is explained in note 3.

3. Accounting policies

a) Cash and cash equivalents

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

b) Revenue recognition

HDRG revenue is recognized based on number of samples analyzed in accordance with the agreed contractual obligations.

c) Consolidation

The consolidated financial statements include the accounts of the Company and its inactive wholly owned subsidiary, Color Lazer Products Inc.

d) Technology development costs

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

Technology development costs that are capitalized are assessed periodically by reference to anticipated future undiscounted cash flows to determine if the carrying value is still appropriate.

e) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the assets at annual rates as follows, except for the first year for which only one half of this amortization is recorded.

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

f) Stock options

The Company recognizes as compensation expense in respect of stock options granted under the Company's Stock Option Plan described in note 9. The expense is equal to the estimated fair value of the option, as valued by the Black-Scholes model, at its grant date and is amortized over the vesting period of the option. The compensation expense recognized in income is adjusted for options that are forfeited prior to vesting at the time of forfeiture. Compensation expense is initially credited to contributed surplus and transferred to share capital when the option is exercised. Consideration received on the exercise of stock options is credited to share capital.

g) Financial instruments – recognition and measurement

The Company has classified its financial instruments as follows: cash and cash equivalents as held-for-trading, accounts receivable as loans and receivables; and accounts payable and accrued liabilities, advances from related companies as other financial liabilities. All financial instruments are included on the balance sheet and are measured at fair value, except for loans and receivables and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value depends on the initial classification of the particular instrument. Held for trading financial instruments are measured at fair value with gains and losses recognized in earnings immediately. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable. Loans and receivables, and other financial liabilities are recognized at amortized cost using the effective interest method and impairment losses are recorded in earnings when incurred.

The Company's accounting policy with respect to transaction costs has been to capitalize all transaction costs for all financial instruments, except for those classified as held-for-trading.

h) Financial instruments – comprehensive income and equity

GAAP establishes guidelines for reporting of comprehensive income (loss), which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. As a result of adopting CICA Section 1530, two new statements can be presented, being Consolidated Statements of Changes in Shareholders Equity and Statements of Comprehensive Income (Loss).

To date, the Company does not have any adjustments in Other Comprehensive Income ("OCI") and therefore comprehensive income is currently equal to net income.

i) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the carrying value of deferred technology development costs and the expected cost recoveries from future revenues. Actual results could differ from the estimates.

Digger Resources Inc.

Notes to Consolidated Financial Statements

October 31, 2009

j) Loss per share

The loss share is calculated using the weighted average number of shares outstanding (2009 – 9,349,035; 2008 – 9,349,035).

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

k) Capital disclosures

Effective August 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This Section establishes standards for disclosing information about a company's capital and how it is managed to enable users of financial statements to evaluate the company's objectives, policies and procedures for managing capital. The adoption of this Section requires that information on capital management be included in the notes to the consolidated financial statements (see note 12). This new standard does not have any effect on the Company's financial position or results of operations.

l) Credit risk

The Company has adopted EIC 173, which considers whether a company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities. See note 11 for disclosure.

4. Recent accounting pronouncements**International financial report standards**

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") over a transition period to be completed by 2011. The Company is currently assessing the impact of these new standards.

Digger Resources Inc.
Notes to Consolidated Financial Statements
October 31, 2009

5. Capital assets

	<u>2009</u>		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>
	\$	amortization	\$
	\$	\$	\$
Computer equipment	231,764	231,131	633
Office furniture and equipment	50,504	49,786	718
	<u>282,268</u>	<u>280,917</u>	<u>1,351</u>

6. Technology development costs

Technology development costs consist of the following:

	<u>2009</u>
	\$
Balance – Beginning of period	7,647
Less: Amortization during period	<u>955</u>
Balance – End of period	<u>6,692</u>

7. Related party transactions

Advances from related companies

The advances from related companies in the amount of \$284,359 (July 31, 2009 - \$267,168) are non-interest bearing and are owing to companies owned by two directors, who have indicated that they will not demand repayment in the next twelve months unless additional funding is raised from project contracts, borrowings or by way of share issue.

Revenue

Revenue includes sales of Nil (2008 - \$30,800) to a company related to a director of the Company. These sales are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Digger Resources Inc.
Notes to Consolidated Financial Statements
October 31, 2009

8. Capital stock

Authorized

100,000,000 common shares with no par value (July 31, 2009 – 100,000,000)

Issued

	October 31 2009		July 31 2009	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – Beginning and end of period	9,349,035	4,435,884	9,349,035	4,435,884

9. Share option plan

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

A summary of the outstanding stock options as of October 31, 2009 and 2008, and changes during the period then ended are as follows.

	2009		2008	
	Stock options	Weighted average exercise price \$	Stock options	Weighted average exercise price \$
Outstanding–Beginning of period	1,125,000	0.40	1,275,000	1.57
Granted during the year	–		–	–
Expired during the year	–	–	–	–
Outstanding - End of period	<u>1,125,000</u>	0.40	<u>1,275,000</u>	1.57
Exercisable – End of period	<u>1,125,000</u>		<u>1,225,000</u>	

Digger Resources Inc.
Notes to Consolidated Financial Statements
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Total compensation expense is amortized over the vesting period of the options. Compensation expense of \$Nil (2008 - \$11,312) has been recognized during the period based on the estimated fair value options of the grant in accordance with the fair value method of accounting for stock-based compensation.

On October 28, 2008, the Board of Directors approved their pricing of the existing stock options to \$0.40 per share. At the annual Governor Meeting held on December 29, 2008, the shareholders of the Company ratified this re-pricing.

The Company does not anticipate paying any dividends during the expected five year life of these options. No options were granted in 2009, however due to the repricing, the fair value of the outstanding options was recalculated to \$0.20 using the Black-Scholes option pricing model, assuming a risk free interest rate of 1.36% and volatility percentage of 86%.

10. Contributed surplus

The following summarizes the continuity of contributed surplus:

	2009	2008
	\$	\$
Balance – Beginning of period	1,827,833	1,671,047
Stock-based compensation	–	11,312
	<hr/>	<hr/>
Balance – End of period	<u>1,827,833</u>	<u>1,682,359</u>

11. Financial instruments

Fair value of financial assets and liabilities

The Company's financial instruments recognized in the balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities and advances from related companies. The fair values of these recognized financial instruments approximate their carrying amounts except for advances from related companies for which the fair value is not readily determinable

Credit risk

Digger is exposed to credit losses in the event of non-payment of accounts receivable. The carrying values reflect management's assessment of the associated maximum exposure to such credit risk. The Company has not previously experienced any material credit losses on the collection of accounts receivable.

Liquidity risk

The Company has heightened liquidity risk due to the lack of third party revenue. To mitigate liquidity risk that is attributed to accounts payable and accrued liabilities and advances from related companies, the Company closely monitors liquidity related to obligations by evaluating forecasted cash flows, including capital spending activity, working capital requirements, and other potential cash expenditures. This continual financial assessment process enables the Company to mitigate liquidity risk.

Accounts payable and accrued liabilities are primarily due within one year of the balance sheet date and the Company does not anticipate any problems in satisfying the obligations due to the strength of cash provide by operating. Advances from related companies are due within one year of the balance sheet date, however the related parties have indicated that the advances will not be demanded unless additional financing is raised from project contracts, borrowing or by way of share issue.

Market risk

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

a) **Currency risk**

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

The Company is not exposed to currency risk as all transactions are in Canadian dollars.

b) **Interest rate risk**

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

12. Management of capital resources

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

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

13. Commitments

The Company entered into a licensing agreement effective July 5, 1999. The agreement gives the Company the exclusive license to further development of a proprietary leachant. The Company will pay a license fee of 10 Australian dollars (\$9.00 at year-end exchange rates) per sample during the term of this agreement, which is 30 years, with a minimum of 1,000 samples per year (subject to inflationary changes after 10 years), resulting in the following minimum annual payments:

	<u>\$</u>
2010	8,995
2011	8,995
2012	8,995
2013	8,995
2014	8,995
2015 - 2030	134,925

14. Subsequent events

On September 28, 2009, Digger received a notice from the TSX Venture Exchange regarding Tier 2 maintenance requirements ("TMR") in accordance with Exchange Policy 2.5. TMR state an issuer must have a minimum number of shares in a public float, a market value of at least \$100,000, net tangible assets exceeding \$100,000 and at least \$50,000 in working capital; otherwise the Company will be transferred to the NEX. Digger is currently assessing the impact of the notice.