

Financial Statements of

**Digger Resources Inc.**

Three Months ended October 31, 2010  
(Unaudited)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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 8, 2010

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

DIGGER RESOURCES INC.  
CONSOLIDATED BALANCE SHEET  
OCTOBER 31, 2010  
(Unaudited)

	October 31 2010 \$	July 31 2010 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	156	533
Accounts receivable	59,737	206
	59,893	739
<b>CAPITAL ASSETS (note 5)</b>	1,065	1,087
<b>TECHNOLOGY DEVELOPMENT COSTS (note 6)</b>	2,872	3,827
	63,830	5,653
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable	10,878	27,238
Advances from affiliated companies	332,409	313,310
Deferred revenue (note 7)	58,900	-
	402,187	340,548
<b>SHAREHOLDERS' DEFICIENCY</b>		
<b>CAPITAL STOCK (note 9)</b>	4,435,884	4,435,884
<b>CONTRIBUTED SURPLUS (note 11)</b>	1,827,833	1,827,833
<b>DEFICIT</b>	(6,602,074)	(6,598,612)
	(338,357)	(334,895)
	63,830	5,653

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, 2010  
(Unaudited)

	Three Months Ended October 31		Year To Date Ended October 31	
	2010 \$	2009 \$	2010 \$	2009 \$
REVENUE				
Contract sampling	—	—	—	—
EXPENSES				
Office and administrative	2,366	1,529	2,366	1,529
Professional fees	119	—	119	—
Amortization	977	1,043	977	1,043
	<u>3,462</u>	<u>2,572</u>	<u>3,462</u>	<u>2,572</u>
NET AND COMPREHENSIVE LOSS	(3,462)	(2,572)	(3,462)	(2,572)
DEFICIT, BEGINNING OF PERIOD	<u>(6,598,612)</u>	<u>(6,547,645)</u>	<u>(6,598,612)</u>	<u>(6,547,645)</u>
DEFICIT, END OF PERIOD	<u>(6,602,074)</u>	<u>(6,550,217)</u>	<u>(6,602,074)</u>	<u>(6,550,217)</u>
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, 2010  
(Unaudited)

	Three Months Ended October 31		Year To Date Ended October 31	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>OPERATING ACTIVITIES</b>				
Net loss	(3,462)	(2,572)	(3,462)	(2,572)
Items not affecting cash:				
Amortization	977	1,043	977	1,043
	(2,485)	(1,529)	(2,485)	(1,529)
Net change in non-cash working capital items	(16,991)	(15,475)	(16,991)	(15,475)
	(19,476)	(17,004)	(19,476)	(17,004)
<b>FINANCING ACTIVITY</b>				
Advances from related companies	19,099	17,191	19,099	17,191
<b>INCREASE (DECREASE) IN CASH</b>	(377)	187	(377)	187
<b>CASH, BEGINNING OF PERIOD</b>	533	399	533	399
<b>CASH, END OF PERIOD</b>	156	586	156	586
<b>SUPPLEMENTARY INFORMATION</b>				
Interest paid	-	-	-	-
Taxes paid	-	-	-	-

See accompanying notes

**Digger Resources Inc.**

Notes to Consolidated Financial Statements

**October 31, 2010**

(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, 2010. 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, 2010.

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 for indicators of impairment each reporting period. If there are indicators, an impairment test is performed to determine if the carrying value is still appropriate.

**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

**Digger Resources Inc.**

Notes to Consolidated Financial Statements

**October 31, 2010**

---

**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 10. 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.



**j) Loss per share**

The loss per share is calculated using the weighted average number of shares outstanding (2010 – 9,349,035; 2009 – 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 13). 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 12 for disclosure.

**4. Recent accounting pronouncements issued but not implemented**

**a) Business combinations**

Section 1582, Business Combinations, replaces the previous business combinations standard. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations. The new section will become effective, for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

**b) Consolidated financial statements**

Section 1601, Consolidated Financial Statements, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The new section will become effective for periods beginning on or after January 1, 2011.

**c) Non-controlling interests**

Section 1602, Non-controlling Interests, establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The new section will become effective for periods beginning on or after January 1, 2011.

**d) 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”). The effective date is for periods beginning on or after January 1, 2011. Therefore the Company will be required to issue its first set of annual financial statements in accordance with IFRS for the July 31, 2012 year end. The Company is currently assessing the impact of these new standards.

**5. Capital assets**

	<b>2010</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer equipment	231,764	231,293	471
Office furniture and equipment	50,504	49,910	594
	<u>282,268</u>	<u>281,203</u>	<u>1,065</u>

**Digger Resources Inc.**  
Notes to Consolidated Financial Statements  
**October 31, 2010**

---

**6. Technology development costs**

Technology development costs consist of the following:

	<b>2010</b>
	<b>\$</b>
Balance – Beginning of period	3,827
Less: Amortization during period	<u>955</u>
Balance – End of period	<u>2,872</u>

**7. Deferred revenue**

On September 20, 2010 the Company signed a consulting service contract to collect and analyze samples using its technology. The financial terms of the contract stipulate that 50% of the contract value is due to the Company when the samples are delivered to the designated laboratory for analysis. The balance of the contract is due when the Company delivers its final report.

Deferred revenue represents 50% of this contract as the collected samples were delivered to the laboratory on October 19<sup>th</sup>, 2010. Revenue will be recognized when all terms of the contract have been satisfied and costs identified.

**8. Related party transactions**

**Advances from related companies**

The advances from related companies in the amount of \$332,409 (July 31, 2010 - \$313,310) are non-interest bearing and are owing to companies owned by two directors, who have signed letters indicating that they will not demand repayment in the next twelve months unless additional funding is raised.

**Digger Resources Inc.**  
Notes to Consolidated Financial Statements  
**October 31, 2010**

**9. Capital stock**

Authorized

100,000,000 common shares with no par value (July 31, 2010 – 100,000,000)

Issued

	<b>October 31 2010</b>		<b>July 31 2010</b>	
	<b>Number of shares</b>	<b>Amount \$</b>	<b>Number of shares</b>	<b>Amount \$</b>
Balance – Beginning and end of period	9,349,035	4,435,884	9,349,035	4,435,884

**10. 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, 2010 and July 31, 2010, and changes during the period then ended are as follows.

	<b>October 31 2010</b>		<b>July 31 2010</b>	
	<b>Stock options</b>	<b>Weighted average exercise price \$</b>	<b>Stock options</b>	<b>Weighted average exercise price \$</b>
Outstanding–Beginning of year	1,125,000	0.40	1,125,000	0.40
Granted during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding - End of year	1,125,000	0.40	1,125,000	0.40
Exercisable – End of year	1,125,000		1,125,000	

**Digger Resources Inc.**

Notes to Consolidated Financial Statements

**October 31, 2010**

---

Total compensation expense is amortized over the vesting period of the options. Compensation expense of \$Nil (2009 - \$Nil) 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 2010 or 2009. However, in 2009 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%.

**11. Contributed surplus**

The following summarizes the continuity of contributed surplus:

	<b>October 31 2010 \$</b>	<b>July 31 2010 \$</b>
Balance – Beginning of period	1,827,833	1,827,833
Stock-based compensation	—	—
	<hr/>	<hr/>
Balance – End of period	1,827,833	1,827,833

**12. 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.

**Digger Resources Inc.**

Notes to Consolidated Financial Statements

**October 31, 2010**

---

**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.

The Company currently has negative working capital and negative operation cash flows. Therefore, a going concern note 1 is included in the financial statements.

**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 exposed to currency risk as lab and license fees are in Australian currency.

## 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.

**13. 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.

**Digger Resources Inc.**

Notes to Consolidated Financial Statements

**October 31, 2010**

---

**14. Commitments and Contingencies**

The Company entered into a licensing agreement effective July 5, 1999 with Wamtech Pty. 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 (\$9.32 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>
2011	9,320
2012	9,320
2013	9,320
2014	9,320
2015	9,320
2016 - 2030	130,480

The validity of this licensing agreement has been disputed by the successor to the licensor. The Company is of the view that the licensing agreement created a binding legal obligation on the part of the licensor and intends on pursuing legal action, if necessary, to enforce the terms of the licensing agreement.

**15. Changes in non-cash working capital accounts**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Accounts receivable	(59,531)	(875)
Accounts payable and accrued liabilities	(16,360)	(14,600)
Deferred revenue	58,900	-
	<u>(16,991)</u>	<u>(15,475)</u>