

Consolidated Interim Financial Statements of

Digger Resources Inc.

Six Months Ended January 31, 2012 and 2011
(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 consolidated 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: March 15, 2012

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

Digger Resources Inc.

Consolidated Statements of Financial Position

As at

(Unaudited)

	January 31 2012 \$	July 31 2011 \$	August 1 2010 \$
		(note 17)	(note 17)
ASSETS			
Current assets			
Cash	87,952	59,933	533
Trade and other receivables	31,735	133	206
	119,687	60,066	739
Capital assets (note 6)	2,866	821	1,087
Technology development costs (note 7)	-	-	3,827
	122,553	60,887	5,653
LIABILITIES			
Current liabilities			
Trade and other payables	911	48,596	27,238
Advances from related companies (note 8)	-	248,012	313,310
Advances on share subscriptions	-	65,000	□
	911	361,608	340,548
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Capital stock (note 9)	4,735,884	4,435,884	4,435,884
Warrants	100,000	—	□
Share based payment reserve (note 11)	1,827,833	1,827,833	1,827,833
Deficit	(6,542,075)	(6,564,438)	(6,598,612)
	121,642	(300,721)	(334,895)
	122,553	60,887	5,653

Going concern (note 2)

See accompanying notes

Approved by the Board of DirectorsNorman YeoDirectorGraeme WallaceDirector

Digger Resources Inc.

Consolidated Interim Statement of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended January 31		Year To Date Ended January 31	
	2012	2011	2012	2011
	\$	\$	\$	\$
REVENUE				
Contract sampling	30,690	124,110	30,690	124,110
Other income (note 14)	—	—	20,982	—
	<u>30,690</u>	<u>124,110</u>	<u>51,672</u>	<u>124,110</u>
EXPENSES				
Laboratory analysis	—	26,794	—	26,794
Office and administrative	6,107	8,592	12,536	10,958
Professional fees	16,295	323	16,295	442
Amortization	239	977	478	1,954
	<u>22,641</u>	<u>36,686</u>	<u>29,309</u>	<u>40,148</u>
INCOME AND COMPREHENSIVE INCOME	<u>8,049</u>	<u>87,424</u>	<u>22,363</u>	<u>83,962</u>
NET INCOME PER SHARE -				
Basic and diluted	<u>0.001</u>	<u>0.009</u>	<u>0.002</u>	<u>0.0009</u>
Weighted number of shares outstanding	<u>10,552,610</u>	<u>9,349,035</u>	<u>10,552,610</u>	<u>9,349,035</u>

See accompanying notes

Digger Resources Inc.Consolidated Interim Statements of Changes in Equity
(Unaudited)

	Capital Stock	Warrants	Share-based Payment Reserve	Deficit	Total
	\$	\$	\$	\$	\$
Balance August 1, 2010	4,435,884	-	1,827,833	(6,598,612)	(334,895)
Net income	-	-	-	83,962	83,962
Balance January 31, 2011 (note 17)	<u>4,435,884</u>	<u>-</u>	<u>1,827,833</u>	<u>(6,514,650)</u>	<u>(250,933)</u>
Balance August 1, 2011	4,435,884	-	1,827,833	(6,564,438)	(300,721)
Net income	-	-	-	22,363	22,363
Shares issued	300,000	-	-	-	300,000
Fair market value of warrants issued	-	100,000	-	-	100,000
Balance January 31, 2012	<u>4,735,884</u>	<u>100,000</u>	<u>1,827,833</u>	<u>(6,542,075)</u>	<u>121,642</u>

See accompanying notes

Digger Resources Inc.Consolidated Interim Statement of Cash Flows
(Unaudited)

	Three Months Ended January 31		Year To Date Ended January 31	
	2012 \$	2011 \$	2012 \$	2011 \$
OPERATING ACTIVITIES				
Net income	8,049	87,424	22,363	83,962
Items not affecting cash:				
Amortization	239	977	478	1,954
	<u>8,288</u>	<u>88,401</u>	<u>22,841</u>	<u>85,916</u>
Net change in non-cash working capital items (note 16)	<u>(29,170)</u>	<u>1,020</u>	<u>(79,287)</u>	<u>(15,971)</u>
	<u>(20,882)</u>	<u>89,421</u>	<u>(56,446)</u>	<u>69,945</u>
INVESTING ACTIVITY				
Acquisition of capital assets	-	-	(2,523)	-
FINANCING ACTIVITIES				
Shares issued	-	-	400,000	-
Advances on share subscriptions	-	-	(65,000)	-
Advances from related companies	-	(24,074)	(248,012)	(4,975)
	<u>-</u>	<u>(24,074)</u>	<u>86,988</u>	<u>(4,975)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(20,882)</u>	<u>65,347</u>	<u>28,019</u>	<u>64,970</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>108,834</u>	<u>156</u>	<u>59,933</u>	<u>533</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>87,952</u>	<u>65,503</u>	<u>87,952</u>	<u>65,503</u>
SUPPLEMENTARY INFORMATION				
Interest paid	-	-	-	-
Taxes paid	-	-	-	-

See accompanying notes

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

January 31, 2012

(Unaudited)

1. Nature of Operations

Digger Resources Inc. (the “Company” or Digger) was incorporated on December 31, 1985. Digger’s principal business activity is, through the application of its High Definition Reservoir Geochemistry (“HDRG”) technology, the development of an effective exploration technique as an adjunct to existing seismic methods and to assist in the environmentally sound discovery and development of new oil and natural gas reserves through the detection of metallic and non-metallic ions in near surface soil profiles.

The registered office of the Company is as follows:

Digger Resources Inc.
c/o Boughton Law Corporation
Suite 700, 595 Burrard Street
Vancouver, B.C.
V7X 1S8

These unaudited consolidated interim financial statements were approved by the Company’s Board of Directors on March 15, 2012.

2. Going Concern Assumption

These consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting and IFRS I, first time adoption of International Reporting Standards that are applicable to a going concern. However, the use of such principles may not be appropriate because there is 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 January 31, 2012.

The Company is still looking for external markets for its HDRG technology. Management is confident that 2012 will see advancement in the use of HDRG technology, especially by Digger’s related companies 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 pay off debt and to market 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 consolidated interim 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

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

3. Basis of Presentation

Statement of compliance

The Canadian Institute of Chartered Accountants Handbook was revised in 2010 to incorporate the International Financial Reporting Standards (“IFRS”) and required publicly accountable enterprises to apply such standards effective for the years beginning on or after January 1, 2011. The Company has continued reporting on this basis in these interim financial statements.

These are the Company’s first IFRS interim financial statements for the second quarter of the period covered by IFRS and have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, Interim Financial Reporting and IFRS 1, First-Time Adoption of International Financial Reporting Standard. These interim financial statements do not include all of the necessary annual disclosures in accordance with IFRS. The Company has elected to exceed the minimum requirements in order to present the Company’s accounting policies in accordance with IFRS and the additional disclosures required under IFRS 1, which also highlights the changes from the Company’s 2010 annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company’s interim financial statements under IFRS, as the reader will be able to rely on the annual financial statements, which will be prepared in accordance with IFRS.

The Company has consistently applied the same accounting policies in our opening IFRS statement of financial position as at August 1, 2010 and throughout all periods presented, as if the policies had always been in effect. The impact due to the transition from Canadian GAAP to IFRS on our reported financial position, operating income and comprehensive income, cash flows and change in equity including the nature and effect of significant changes in accounting policies from those used in our financial statements for the year ended July 31, 2011 was limited to changes in presentation format. The application of IFRS 1, which governs the first-time adoption of IFRS, did not affect our financial statements as of the transition date of August 1, 2010.

The policies applied in these interim financial statements are presented herein in note 5 and are based on IFRS issued and effective as of 2011. Any subsequent changes to IFRS that are required to be adopted in our annual financial statements for the year ended July 31, 2012 could result in restatements of these interim financial statements.

Basis of measurement

These interim financial statements have been prepared on a historical cost basis, except for derivative instruments which are measured at fair value.

Functional and presentation currency

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

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

4. Significant Accounting Judgments, Estimates and Assumptions

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

Amounts recorded for warrant valuations are based on management's estimates of share price volatility and the expected life of the warrants. Allowances for doubtful accounts are based on management's estimates and the estimated recoverability of accounts receivable in the future.

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

Tax interpretations, regulations and legislation in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

5. Significant Accounting Policies

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

Foreign currency translation

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

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

5. Significant Accounting Policies, *continued*

All impairment losses are recognized in operations.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in operations.

Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank less outstanding cheques with maturities of three months or less.

Revenue recognition

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

Consolidation

The consolidated interim financial statements include the accounts of the Company and its inactive wholly owned subsidiary, Color Lazer Products Inc. All intercompany balances and transactions are eliminated on consolidation.

Technology development costs

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

Technology development costs that are capitalized are assessed for indicators of impairment each reporting period. If there are indicators, an impairment test is performed to determine if the carrying value is still appropriate. Any impairments are charged to income in the period incurred.

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 Interim Financial Statements

January 31, 2012

(Unaudited)

5. Significant Accounting Policies, *continued***Warrants**

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

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

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

Share based payments

The Company recognizes as compensation expense in respect of stock options granted under the Company's Stock Option Plan described in note 10. The expense is equal to the estimated fair value of the options, as valued by the Black-Scholes model, at its grant date and is amortized over the vesting period of the option. 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 share based payment reserve and transferred to capital stock when the option is exercised. Consideration received on the exercise of stock options is credited to capital stock.

Financial instruments – recognition and measurement

The Company has classified its financial instruments as followed: cash and cash equivalents, accounts receivable as loans and receivables: and accounts payable and accrued liabilities, advances from related companies as other financial liabilities. All financial instruments are include on the consolidated 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 transactions costs has been to capitalize all transaction costs for all financial instruments, except for those classified as held-for-trading.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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5. Significant Accounting Policies, *continued*

Income (loss) per share

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

Future accounting pronouncements

IFRS 7, Financial Instruments: disclosures (effective on or after July 1, 2011)

The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. This amendment is not expected to significantly impact the Company. Disclosures are not required for comparative periods before the date of initial application of the amendments.

IFRS 9, Financial Instruments (effective January 1, 2013)

The standard is the first step in the process to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 regarding the recognition of financial assets and financial liabilities.

IFRS 10, Consolidated Financial Statements (effective January 1, 2013)

This standard is issued to supersede IAS 27, "Consolidated and Separate Financial Statements" and SIC 12, "Consolidation – Special Purpose Entities. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11, Joint Arrangements (effective January 1, 2013)

This standard is issued to supersede IAS 31, "Interest in Joint Venture" and SIC 13, "Consolidation of Jointly Controlled Entities – Non Monetary Contributions by Ventures". This standard is intended to provide a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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5. Significant Accounting Policies, *continued***IFRS 12, Disclosure of Interest in Other Entities (effective January 1, 2013)**

This standard specifies disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

IFRS 13, Fair Value Measurement (effective January 1, 2013)

The main provisions for this standard include defining fair value, setting out in a single standard a framework for measuring fair value and specifying certain disclosure requirements about fair value measurements.

IAS 12, Income Taxes (effective January 1, 2012)

This standard has been amended on December 20, 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset.

IAS 27, Separate Financial Statements (effective January 1, 2012)

This has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28, Investments in Associates and Joint Ventures (effective January 1, 2012)

This standard prescribes the accounting for investments in associates and sets out the requirements for application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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6. Capital Assets

Cost	Computer Equipment \$	Office Equipment \$	Total \$
Balance August 1, 2010	231,764	50,504	282,268
Additions/Disposals	—	—	—
Balance July 31, 2011	231,764	50,504	282,268
Additions/Disposals	2,523	—	2,523
Balance January 31, 2012	234,287	50,504	284,791

Accumulated Amortization	Computer Equipment \$	Office Equipment \$	Total \$
Balance August 1, 2010	231,281	49,900	281,181
Amortization	145	121	266
Impairment/Disposals	—	—	—
Balance July 31, 2011	231,426	50,021	281,447
Amortization	430	48	478
Impairment/Disposals	—	—	—
Balance January 31, 2012	231,856	50,069	281,925

7. Technology Development Costs

Cost	Technology Development Costs \$
Balance August 1, 2010	200,667
Additions	—
Balance July 31, 2011	200,667
Additions	—
Balance January 31, 2012	200,667

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

7. Technology Development Costs, *continued*

<u>Accumulated Amortization</u>	<u>\$</u>
Balance August 1, 2010	196,840
Amortization	3,827
Balance July 31, 2011	<u>200,667</u>
Amortization	<u>—</u>
Balance January 31, 2012	<u>200,667</u>

8. Related Party Transactions**Advances from related companies**

The advances from related companies in the amount of \$nil (July 31, 2011 - \$248,012) are non-interest bearing and are owing to companies owned by two directors. These transactions were measured at the amount of consideration established and agreed upon by the related parties.

The advances were repaid during the period with funds from the non-brokered private placement outlined in note 9.

9. Capital Stock

Authorized

100,000,000 common shares with no par value

Issued

	January 31 2012		August 1 2010 and July 31 2011	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – beginning of period	9,349,035	4,435,884	9,349,035	4,435,884
Shares issued on private placement	2,000,000	300,000	-	-
Fair market value of warrants issued	-	100,000	-	-
Balance – end of period	<u>11,349,035</u>	<u>4,835,884</u>	<u>9,349,035</u>	<u>4,435,884</u>

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

9. Capital Stock, *continued*

On July 28, 2011 the TSX Venture Exchange accepted the filing documentation for the non-brokered private placement announced by the Company on July 11, 2011.

The private placement is for 2,000,000 units at \$0.20 per unit. Each unit comprises one share and one warrant to purchase shares at \$0.26 for a one year period. All securities issued pursuant to the agreements are subject to a four month holding period from the date of “Closing” on August 12, 2011.

The fair value of share purchase warrants issued as per above is calculated using “Black-Sholes model” following weighted average assumptions:

	<u>January 31, 2012</u>
Risk-free interest rate	1.95%
Expected stock price volatility	50%
Expected dividend yield	0.00%
Expected warrant life in years	1

10. Stock 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. 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.

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10. Share Option Plan, *continued*

A summary of the outstanding stock options as of January 31, 2012 and July 31, 2011, and changes during the period then ended are as follows:

	January 31 2012		July 31 2011	
	Stock options	Weighted average exercise price \$	Stock options	Weighted average exercise price \$
Outstanding – beginning of period	150,000	0.40	1,125,000	0.40
Granted during the period	–	–	–	–
Expired during the period	–	–	(975,000)	0.40
Outstanding - end of period	<u>150,000</u>	0.40	<u>150,000</u>	0.40
Exercisable – end of period	<u>150,000</u>		<u>150,000</u>	

Total compensation expense is amortized over the vesting period of the options. Compensation expense of \$nil (July 31, 2011 - \$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.

11. Share Based Payment Reserve

The following summarizes the continuity of share based payments:

	January 31 2012 \$	July 31 2011 \$	August 1 2010 \$
Balance – beginning of period and end of period	<u>1,827,833</u>	<u>1,827,833</u>	<u>1,827,833</u>

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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12. Financial Instruments**Fair value of financial assets and liabilities**

The Company's financial instruments recognized in the statement of financial position consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and advances from related companies. The fair values of these recognized financial instruments approximate their carrying amounts due to the short term nature of the 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. Cash is held with a reputable chartered bank from which management believes the risk of loss is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company has heightened liquidity risk due to the lack of third party 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 has negative working capital and a deficit at July 31, 2011. Therefore, a going concern note 2 is included in the consolidated interim financial statements. As at January 31, 2012 the Company has a working capital of \$118,776.

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.

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13. Management of Capital Resources

The capital structure of the Company is composed of shareholders' equity. 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.

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 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).

The validity of this licensing agreement with Wamtech Pty. entered into July 5, 1999 has been disputed by the successor to the licensor. The Company was of the view that the licensing agreement created a binding legal obligation on the part of the licensor and continued to pay the minimum lease fee required under the contract.

On October 2, 2011 this contract became non-enforceable. Consequently, license fees of \$20,982 accrued in the accounts have been cancelled.

Effective October 5, 2010, ALS Laboratory Group ("ALS") granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. Digger is obliged to pay ALS an ongoing licensing fee of AUD \$10 per sample analyzed for use for the leachant. The term of the agreement with ALS is for three years with two renewable terms thereafter of five years each based on successful achievement of performance objectives as follow:

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14. Commitments and Contingencies, *continued*

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

If the performance objectives are met, this agreement results in the following minimum payments:

	\$
2013	52,455
2018 if the renewal is exercised	209,820
	<u>262,275</u>

15. Significant Customers

The Company earned 100% of its revenue from one external customer in the year ended July 31, 2011.

16. Changes in Non-Cash Working Capital Accounts

	2012	2011
	\$	\$
Operating activities		
Trade and other receivables	(31,602)	(756)
Trade and other payables	(47,685)	(15,215)
	<u>(79,287)</u>	<u>(15,971)</u>

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

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(Unaudited)

17. Impact of the Adoption of IFRS

These consolidated financial statements are the Company's second prepared under IFRS, as described in note 3. The Company's IFRS opening statement of financial position and IFRS transition dates is August 1, 2010.

Prior to adopting IFRS, for all periods up to and including the year ended July 31, 2011, the Company's consolidated financial statements were prepared in accordance with Canadian GAAP. The principal adjustments made by the Company in preparing its IFRS opening statement of financial position as at August 1, 2010, and in restating its Canadian GAAP consolidated financial statements for the year ended July, 2011 and the six-month period ended January 31, 2011 are disclosed in note 17.2. However, IFRS1 also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters as follows.

17.1 Exemptions and exceptions

The Company has applied IFRS 1 in preparing these consolidated financial statements. The Company is generally required to determine IFRS accounting policies as of the transition date and apply them retrospectively to determine the IFRS opening balance sheet as at August 1, 2010. This standard provides a number of mandatory exceptions and optional exemptions to this general principle of retrospective application. Descriptions of applicable exemptions and exceptions are set out below, together with the Company's elections.

17.1.1 Optional exemptions

Business combinations

IFRS 1 provides the options to apply IFRS 3R (revised), *Business Combinations*, retrospectively or prospectively from the transition date. A retrospective basis application would require restatement of all business combinations that occurred prior to the transition date. The Company has elected not to apply IFRS 3R retrospectively to business combinations that occurred prior to August 1, 2010.

Share-based payment

IFRS 1 also provides the option not to apply IFRS 2, *Share-based Payment*, to options granted on or before November 7, 2002 and options granted after November 7, 2002 that were exercisable prior to the transition date August 1, 2010. The Company has opted not to apply IFRS 2 as at August 1, 2010.

17.1.2 Mandatory exception

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS as of the IFRS transition date must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were inaccurate. The estimates previously made by the Company under Canadian GAAP were not revised on the application of IFRS.

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17. Impact of the Adoption of IFRS, *continued***17.2 Reconciliation of Canadian GAAP to IFRS**

The following tables show the impact of the adjustments from Canadian GAAP to IFRS made to the Company's consolidated interim statements of operations and comprehensive income (loss) and cash flows for the six-month period ended January 31, 2011 and year ended July 31, 2011, as well as to the consolidated statement of financial position and changes in equity as at August 1, 2010 and July 31, 2011.

**17.2.1 Consolidated Statement of Operations and Comprehensive Loss
For the Six-Months Ended January 31, 2011**

	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
Revenue			
Contract sampling	124,110	—	124,110
Expenses			
Laboratory analysis	26,794	—	26,794
Office and administrative	10,958	—	10,958
Professional fees	442	—	442
Amortization	1,954	—	1,954
	40,148	—	40,148
Net income and comprehensive income	83,962	—	83,962
Basic and diluted loss per share	0.009		0.009
Weighted average number of common shares outstanding	9,349,035		9,349,035

Digger Resources Inc.

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17. Impact of the Adoption of IFRS, continued**17.2.2 Consolidated Statement of Operations and Comprehensive Income
(Loss) For the Year Ended July 31, 2011**

	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
Revenue			
Contract sampling	124,800	—	124,800
Expenses			
Office and administrative	17,137	—	17,137
Professional fees	32,111	—	32,111
Amortization	4,093	—	4,093
License fees	10,491	—	10,491
Laboratory analysis	26,794	—	26,794
	90,626	—	90,626
Net income and comprehensive income	34,174	—	34,174
Basic and diluted income per share	0.004		0.004
Weighted average number of common shares outstanding	9,349,035		9,349,035

**17.2.3 Consolidated Statements of Cash Flows for the Six-Month Period Ended
January 31, 2011 and Year Ended July 31, 2011 and Changes in Equity as of
August 1, 2010, January 31, 2011 and July 31, 2011**

There were no adjustments required in restating the Canadian GAAP opening statement of financial position as of August 1, 2010, and financial statements for the six-month period ending January 31, 2011 and the year ended July 31, 2011. As a result, a statement of cash flows and changes in equity for the above noted periods have not been presented.

Digger Resources Inc.

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17. Impact of the Adoption of IFRS, *continued***17.2.4 Summary Consolidated Statement of Financial Position as at August 1, 2010**

	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
Assets			
Current assets	739	—	739
Non-current assets	4,914	—	4,914
	5,653	—	5,653
Liabilities			
Current liabilities	340,548	—	340,548
Shareholders' deficiency			
Capital stock	4,435,884	—	4,435,884
Share based payment reserve	1,827,833	—	1,827,833
Deficit	(6,598,612)	—	(6,598,612)
	(334,895)	—	(334,895)
	5,653		5,653

Digger Resources Inc.

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(Unaudited)

17. Impact of the Adoption of IFRS, *continued***17.2.5 Summary Consolidated Statement of Financial Position as at July 31, 2011**

	Canadian GAAP \$	IFRS Adjustments \$	IFRS \$
Assets			
Current assets	60,066	—	60,066
Non-current assets	821	—	821
	<u>60,887</u>	<u>—</u>	<u>60,887</u>
Liabilities			
Current liabilities	<u>361,608</u>	<u>—</u>	<u>361,608</u>
Shareholders' deficiency			
Capital stock	4,435,884	—	4,435,884
Share payment reserve	1,827,833	—	1,827,833
Deficit	<u>(6,564,438)</u>	<u>—</u>	<u>(6,564,438)</u>
	<u>(300,721)</u>	<u>—</u>	<u>(300,721)</u>
	<u>60,887</u>	<u>—</u>	<u>60,887</u>