

Consolidated Interim Financial Statements of

Digger Resources Inc.

Three Months Ended October 31, 2012 and 2011
(Unaudited)

NOTICE FOR NATIONAL INSTRUMENT 51-102

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 condensed consolidated interim 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 condensed consolidated financial statements by an entity's auditor.

Dated: December 5, 2012

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

Digger Resources Inc.
Consolidated Interim Statements of Financial Position
(Unaudited)

	October 31, 2012 \$	July 31, 2012 \$
ASSETS		
Current assets		
Cash	95,494	129,603
Accounts receivable	1,510	208
	97,004	129,811
Non-current assets		
Capital assets (note 6)	2,218	2,388
	99,222	132,199
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	—	26,300
EQUITY		
Capital stock (note 8)	4,715,884	4,715,884
Warrants (note 8)	120,000	120,000
Share-based payments reserve (note 10)	1,847,071	1,827,833
Deficit	(6,583,733)	(6,557,818)
	99,222	105,899
	99,222	132,199

Going concern (note 2)
Commitments and Contingencies (note 13)

See accompanying notes

Approved by the Board of Directors

Norman Yeo

Director

Graeme Wallace

Director

Digger Resources Inc.

Consolidated Interim Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended October 31,	
	2012	2011
	\$	\$
REVENUE		
Contract sampling	—	—
Other income (note 13)	—	20,982
	<u>—</u>	<u>20,982</u>
EXPENSES		
Share-based compensation	19,238	—
Office and administrative	5,192	6,429
Professional fees	1,315	—
Amortization	170	239
	<u>25,915</u>	<u>6,668</u>
INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	<u>(25,915)</u>	<u>14,314</u>
NET INCOME (LOSS) PER SHARE		
Basic and diluted	<u>(0.002)</u>	<u>0.001</u>
Weighted number of shares outstanding	<u>11,349,035</u>	<u>9,658,989</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 July 31, 2011	4,435,884	—	1,827,833	(6,564,438)	(300,721)
Net income	—	—	—	6,620	6,620
Shares issued (note 8)	280,000	—	—	—	280,000
Fair market value of warrants issued (note 8)	—	120,000	—	—	120,000
Balance July 31, 2012	4,715,884	120,000	1,827,833	(6,557,818)	105,899
Net loss for the period	—	—	—	(25,915)	(25,915)
Share-based compensation	—	—	19,238	—	19,238
Balance October 31, 2012	4,715,884	120,000	1,847,071	(6,583,733)	99,222

See accompanying notes

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

	Three Months Ended October 31,	
	2012 \$	2011 \$
OPERATING ACTIVITIES		
Net income (loss)	(25,915)	14,314
Items not affecting cash:		
Share-based compensation	19,238	—
Amortization	170	239
	<u>(6,507)</u>	<u>14,553</u>
Net change in non-cash working capital items (note 15)	<u>(27,602)</u>	<u>(50,117)</u>
	<u>(34,109)</u>	<u>(35,564)</u>
INVESTING ACTIVITY		
Acquisition of capital assets	<u>—</u>	<u>(2,523)</u>
FINANCING ACTIVITIES		
Shares issued	—	400,000
Advances on share subscriptions	—	(65,000)
Advances from related companies	—	(248,012)
	<u>—</u>	<u>86,988</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(34,109)</u>	<u>48,901</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>129,603</u>	<u>59,933</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>95,494</u>	<u>108,834</u>
SUPPLEMENTARY INFORMATION		
Interest paid	—	—
Taxes paid	—	—

See accompanying notes

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 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: Suite 700, 595 Burrard Street, Vancouver, British Columbia, V7X 1S8.

These unaudited consolidated interim financial statements were approved by the Company’s Board of Directors on December 5, 2012.

2. Going Concern Assumption

These consolidated interim financial statements have been prepared in accordance with International Financial 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 October 31, 2012.

The Company is still looking for external markets for its HDRG technology. Management is confident that 2013 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

October 31, 2012

(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.

The policies applied in these interim financial statements are presented herein in note 5 and are based on IFRS issued and effective as of 2012. Any subsequent changes to IFRS that are required to be adopted in our annual financial statements for the year ended July 31, 2013 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.

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.

Charges for share-based payments and warrants are based on the fair value at the date of the award. The shares are valued using Black-Scholes, and inputs to the model include management’s assumptions on share price volatility, discount rates and expected life outstanding.

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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

5. Significant Accounting Policies

These 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.

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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

5. Significant Accounting Policies, *continued***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

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 9. 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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

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

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 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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

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

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 27, Separate Financial Statements (effective January 1, 2013)

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 32, Financial Instruments: Presentation (effective January 1, 2014)

Amended to clarify requirements for offsetting of financial assets and financial liabilities. This amendment is not expected to significantly impact the Company.

6. Capital Assets

Cost	Computer Equipment \$	Office Equipment \$	Total \$
Balance July 31, 2012	234,287	50,504	284,791
Additions/Disposals	—	—	—
Balance October 31, 2012	234,287	50,504	284,791

Accumulated Amortization	Computer Equipment \$	Office Equipment \$	Total \$
Balance July 31, 2012	232,286	50,117	282,403
Amortization	150	20	170
Impairment/Disposals	—	—	—
Balance October 31, 2012	232,436	50,137	282,573

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

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

There were no transactions with related parties during the period.

8. Capital Stock and Warrants

Authorized

100,000,000 common shares with no par value

Issued

Capital stock	October 31, 2012		July 31, 2012	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance – beginning of period	11,349,035	4,715,884	9,349,035	4,435,884
Shares issued on private placement	—	—	2,000,000	280,000
Balance – end of period	11,349,035	4,715,884	11,349,035	4,715,884
Warrants				
Balance – beginning of period	2,000,000	120,000	2,000,000	120,000
Fair market value of warrants issued	—	—	—	—
Balance — end of period	2,000,000	120,000	2,000,000	120,000

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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

8. Capital Stock and Warrants, *continued*

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

	<u>October 31, 2012</u>	<u>July 31, 2012</u>
Risk-free interest rate	1.95%	1.95%
Expected stock price volatility	60%	60%
Expected dividend yield	0.00%	0.00%
Expected warrant life in years	1	1

9. 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.

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

	<u>October 31, 2012</u>		<u>July 31, 2012</u>	
	Stock options	Weighted average exercise price \$	Stock options	Weighted average exercise price \$
Outstanding – beginning of period	—	—	150,000	0.40
Granted during the period	950,000	0.15	—	—
Expired during the period	—	—	150,000	—
Outstanding - end of period	<u>950,000</u>	<u>0.15</u>	<u>—</u>	<u>—</u>
Exercisable – end of period	<u>—</u>		<u>—</u>	

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

9. Share Option Plan, *continued*

On September 21, 2012 Digger issued stock options to acquire 950,000 common shares in the capital stock of the Company to certain directors and officers. The options are exercisable at a price of \$.015 per share and vest in the six equal tranches for a term of five years from the date of grant.

Total compensation expense is amortized over the vesting period of the options. Compensation expense of \$19,238 (July 31, 2012 - \$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.

10. Share Based Payment Reserve

The following summarizes the continuity of share based payments:

	October 31, 2012 \$	July 31, 2012 \$
Balance – beginning of period	1,827,833	1,827,833
Share-based compensation	19,238	–
Balance – end of period	<u>1,847,071</u>	<u>1,827,833</u>

11. 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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

11. Financial Instruments, *continued***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.

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.

12. 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.

Digger Resources Inc.

Notes to Consolidated Interim Financial Statements

October 31, 2012

(Unaudited)

13. 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 follows:

- 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 not met, the contract expires. There are no penalties or financial commitments associated with not meeting the minimum samples.

14. Significant Customers

The Company earned 100% of its revenue from one external customer in the year ended July 31, 2012.

15. Changes in Non-Cash Working Capital Accounts

	2012	2011
	\$	\$
Operating activities		
Trade and other receivables	(1,302)	(1,521)
Trade and other payables	(26,300)	(48,596)
	<u>(27,602)</u>	<u>(50,117)</u>