Digger Resources Inc.

Consolidated Financial Statements
July 31, 2009 and 2008

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Auditors' Report

To the Shareholders of
Digger Resources Inc.

We have audited the consolidated balance sheets of **Digger Resources Inc.** as at July 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

Digger Resources Inc.

Consolidated Balance Sheets

As at July 31, 2009 and 2008

	2009 $	2008 $
Assets		
Current assets		
Cash	399	590
Accounts receivable	510	-
	909	590
Capital assets (note 5)	1,439	1,919
Technology development costs (note 6)	7,647	11,467
	9,995	13,976
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	26,755	26,115
Advances from related companies (note 7)	267,168	236,932
	293,923	263,047
Shareholders' Deficiency		
Capital stock (note 8)	4,435,884	4,435,884
Contributed surplus (note 10)	1,827,833	1,671,047
Deficit	(6,547,645)	(6,356,002)
	(283,928)	(249,071)
	9,995	13,976

Going concern (note 1)

Commitments (note 14)

Subsequent events (note 17)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

____________________________ Director
Norman Yeo

____________________________ Director
Graeme Wallace

Digger Resources Inc.

Consolidated Statements of Loss, Comprehensive Loss and Accumulated Deficit

For the years ended July 31, 2009 and 2008

	2009 $	2008 $
Revenue		
Sales (notes 7 and 15)	30,800	30,000
Expenses		
Stock-based compensation costs (note 9)	156,786	170,492
Professional fees	31,845	29,327
Depreciation and amortization	4,300	4,468
Office and administrative	14,298	16,889
License fees	9,272	9,680
Laboratory analysis	5,942	5,513
	222,443	236,369
Net loss and comprehensive loss for the year	(191,643)	(206,369)
Deficit – Beginning of year	(6,356,002)	(6,149,633)
Deficit – End of year	(6,547,645)	(6,356,002)
Net loss per share – basic and diluted	(0.02)	(0.02)

Going concern (note 1)

See accompanying notes to consolidated financial statements.

Digger Resources Inc.

Consolidated Statements of Cash Flows

For the years ended July 31, 2009 and 2008

	2009 $	2008 $
Cash flows provided by (used in)		
Operating activities		
Net loss for the year	(191,643)	(206,369)
Items not affecting cash		
Depreciation and amortization	4,300	4,468
Stock-based compensation costs	156,786	170,492
	(30,557)	(31,409)
Net change in non-cash working capital items (note 16)	130	693
	(30,427)	(30,716)
Financing activity		
Advances from related companies	30,236	30,744
(Decrease) increase in cash for the year	(191)	28
Cash – Beginning of year	590	562
Cash – End of year	399	590
Supplementary information		
Interest paid	-	-
Taxes paid	-	-

Going concern (note 1)

See accompanying notes to consolidated financial statements

1 Going concern assumption

These financial statements have been prepared using generally accepted accounting principles ("GAAP") 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 Digger Resources Inc. ("Digger" or the "Company") to continue as a going concern as the Company has a working capital deficiency, a loss from operations, a deficit and negative cash flow from operations as at July 31 2009.

The Company is still looking for external markets for its HDRG technology. In the current year, the Company completed projects using its HDRG technology, which resulted in revenue of $30,800 (2008 — $30,000), of which $30,800 (2008 — $30,000) was received from a related party (note 7). Management is confident that 2010 will see advancement in the use of HRDG 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 working capital, to pay off debt and to market its HDRG technology to vendors. Also, related parties (note 7) have indicated that the $267,168 (2008 — $236,932) advances from related companies will not be demanded unless additional funding is raised from project contracts, borrowings or by way of share issue.

While there can be no assurance that these initiatives will be successful, management believes that future contracts and management and related party funding will contribute adequate cash flow. These financial statements do not reflect any adjustments to the carrying value of assets, particularly deferred technology development costs of $7,647, 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.

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.

j) Loss per share

The loss per share is calculated using the weighted average number of shares outstanding (year ended July 31, 2009 – 9,349,035; July 31, 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 13). This new standard does not have any effect on the Company's financial position or results of operations

l) Credit risk

Effective for the year ended July 31, 2009, the Company 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) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new Section will become effective August 1, 2009.

Management is still assessing the impact.

b) 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.

5 Capital assets

			2009
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment	231,764	231,081	683
Office furniture and equipment	50,504	49,748	756
	282,268	280,829	1,439

			2008
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment	231,764	230,789	975
Office furniture and equipment	50,504	49,560	944
	282,268	280,349	1,919

6 Technology development costs

Technology development costs consist of the following:

	2009 $	2008 $
Balance – Beginning of year	11,467	15,287
Less: Amortization during year	(3,820)	(3,820)
Balance – End of year	7,647	11,467

7 Related party transactions

Advances from related companies

The advances from related companies in the amount of $267,168 (2008 – $236,932) 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 $30,800 (2008 – $30,000) 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.

8 Capital stock

Authorized
100,000,000 common shares with no par value (2008 – 100,000,000)

Issued

	2009		2008	
	Number of shares	Amount $	Number of shares	Amount $
Balance – Beginning and end of year	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 July 31, 2009 and 2008, and changes during the years then ended are as follows:

	2009		**2008**	
	Stock options	**Weighted-average exercise price $**	**Stock options**	**Weighted-average exercise price $**
Outstanding – Beginning of year	1,275,000	0.40	1,275,000	1.55
Granted during the year	-		150,000	1.75
Expired during the year	(150,000)	0.40	(150,000)	1.55
Outstanding – End of year	1,125,000	0.40	1,275,000	1.55
Exercisable – End of year	1,125,000		1,200,000	

Total compensation expense is amortized over the vesting period of the options. Compensation expense of $156,786 (2008 – $170,492) has been recognized during the year 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 grated 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 a volatility percentage of 86%. The fair value of options granted during 2008 was $1.22 calculated using the Black-Scholes option pricing model assuming a risk free interest rate of 4.6% and a volatility percentage of 86%.

10 Contributed surplus

The following summarizes the continuity of contributed surplus:

	2009 **$**	**2008** **$**
Balance – Beginning of year	1,671,047	1,500,555
Stock-based compensation	156,786	170,492
Balance – End of year	1,827,833	1,671,047

11 Income taxes

No benefit for the recovery of income taxes has been recorded in these financial statements due to uncertainties as to the future utilization of these tax benefits. The recovery of income taxes that would result from applying the statutory income tax rate of 29.21% (2008 – 30.60%) to pre-tax income is as follows:

	2009 **$**	**2008** **$**
Net loss before income taxes	(191,643)	(206,369)
Tax rate	29.21%	30.6%
Expected income tax recovery	(55,979)	(63,149)
Stock-based compensation	45,797	52,171
Impact of rate change and other	634	(4,595)
Change in valuation allowance	9,548	15,573
Provision for income taxes	-	-

The Company's tax pools associated with capital asset and exploration expenditures exceed the related book values by approximately $3,179,931 (2008 – $3,175,646). In addition, the Company has non-capital losses of approximately $210,752 (2008 – $217,573) which may be carried forward to reduce taxable income of future years. The expected tax rate for these temporary losses is 25%. No benefit has been recognized in these accounts. The losses expire as follows:

	$
2010	8,598
2014	7,740
2026	40,213
2027	92,204
2028	31,425
2029	30,572
	210,752

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.

Liquidity risk

The Company has a 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 provided 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.

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 operating 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

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.

	$
2010	8,995
2011	8,995
2012	8,995
2013	8,995
2014	8,995
2015 – 2030	134,925

15 Significant customers

The Company earned 100% of its revenue from one customer in the year ended July 31, 2009 and 2008. 100% of this revenue was from a related party in both years.

16 Changes in non-cash working capital accounts

	2009 $	2008 $
Operating activities		
Accounts receivable	(510)	660
Accounts payable and accrued liabilities	640	33
	130	693

17 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.