Digger Resources Inc.

Consolidated Financial Statements
July 31, 2011 and 2010

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Independent Auditors' Report

To the Shareholders of
Digger Resources Inc.

We have audited the accompanying consolidated financial statements of Digger Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at July 31, 2011 and 2010 and the consolidated statements of income (loss), comprehensive income (loss) and accumulated deficit and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Digger Resources Inc. and its subsidiaries as at July 31, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statement which describes matters and conditions that indicate the existence of material uncertainty that may cast significant doubt about the corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

Digger Resources Inc.
Consolidated Balance Sheets
As at July 31, 2011 and 2010

	2011 $	2010 $
Assets		
Current assets		
Cash	59,933	533
Accounts receivable	133	206
	60,066	739
Capital assets (note 5)	821	1,087
Technology development costs (note 6)	-	3,827
	60,887	5,653
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	48,596	27,238
Advances from related companies (note 7)	248,012	313,310
Advances on share subscriptions (note 8)	65,000	-
	361,608	340,548
Shareholders' Deficiency		
Capital stock (note 8)	4,435,884	4,435,884
Contributed surplus (note 10)	1,827,833	1,827,833
Deficit	(6,564,438)	(6,598,612)
	(300,721)	(334,895)
	60,887	5,653

Going concern (note 1)

Commitments and Contingencies(note 14)

Subsequent events (note 17)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

_______________________Director	_______________________Director
Norman Yeo	Graeme Wallace

Digger Resources Inc.

Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Accumulated Deficit

For the years ended July 31, 2011 and 2010

	2011 $	2010 $
Revenue		
Sales (notes 7 and 15)	124,800	10,000
Expenses		
Professional fees	32,111	32,735
Depreciation and amortization	4,093	4,172
Office and administrative	17,137	13,331
License fees	10,491	9,425
Laboratory analysis	26,794	1,304
	90,626	60,967
Net income (loss) and comprehensive income (loss) for the year	34,174	(50,967)
Deficit – Beginning of year	(6,598,612)	(6,547,645)
Deficit – End of year	(6,564,438)	(6,598,612)
Net income (loss) per share – basic and diluted	0.004	(0.005)

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, 2011 and 2010

	2011 $	2010 $
Cash flows provided by (used in)		
Operating activities		
Net income (loss) for the year	34,174	(50,967)
Items not affecting cash		
Depreciation and amortization	4,093	4,172
	38,267	(46,795)
Net change in non-cash working capital items (note 16)	21,431	787
	59,698	(46,008)
Financing activity		
Advances (repayment) from related companies	(65,298)	46,142
Advances on share subscriptions	65,000	-
	(298)	46,142
Increase in cash for the year	59,400	134
Cash – Beginning of year	533	399
Cash – End of year	59,933	533
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 and a deficit as at July 31 2011.

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 $124,800 (2010 — $10,000), of which $nil (2010 — $10,000) was received from a related party (note 7). Management is confident that 2012 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 obtain additional equity financing to pay off debt and to market its HDRG technology to vendors (see subsequent events note 17).

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, 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’s principal business activity is, through the application of its High Definition Reservoir Geochemisty (“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.

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

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) Income (loss) per share

The loss per share is calculated using the weighted average number of shares outstanding (year ended July 31, 2011 – 9,349,035); July 31, 2010 – 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.

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

			2011
	Cost $	**Accumulated amortization** $	**Net** $
Computer equipment	231,764	231,426	338
Office furniture and equipment	50,504	50,021	483
	282,268	281,447	821

			2010
	Cost $	**Accumulated amortization** $	**Net** $
Computer equipment	231,764	231,281	483
Office furniture and equipment	50,504	49,900	604
	282,268	281,181	1,087

6 Technology development costs

Technology development costs consist of the following:

	2011 $	**2010** $
Balance – Beginning of year	3,827	7,647
Less: Amortization during year	(3,827)	(3,820)
Balance – End of year	-	3,827

7 Related party transactions

Advances from related companies

The advances from related companies in the amount of $248,012 (2010 – $313,310) are non-interest bearing and are owing to companies owned by two directors.

Revenue

Revenue includes sales of $nil (2010 – $10,000) 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 (2010 – 100,000,000)

Issued

	2011		2010	
	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

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.

During the year the Company received $65,000 from related parties which was advanced in anticipation of this private placement.

Subsequent to July 31, 2011 all proceeds were received by the Company and 2,000,000 shares have been issued and 2,000,000 warrants are outstanding to purchase shares at $0.26 each for a one year period.

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. 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, 2011 and 2010, and changes during the years then ended are as follows:

	2011		2010	
	Stock options	**Weighted-average exercise price $**	**Stock options**	**Weighted-average exercise price $**
Outstanding – Beginning of year	1,125,000	0.40	1,125,000	0.40
Granted during the year	-	-	-	0.00
Expired during the year	(975,000)	-	-	0.40
Outstanding – End of year	150,000	0.40	1,125,000	0.40
Exercisable – End of year	150,000		1,125,000	

Total compensation expense is amortized over the vesting period of the options. Compensation expense of $nil (2010 – $nil) 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.

No options were granted in 2011 or 2010.

10 Contributed surplus

The following summarizes the continuity of contributed surplus:

	2011 $	2010 $
Balance – Beginning of year and end of year	1,827,833	1,827,833

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 27.12% (2010 – 28.42%) to pre-tax income is as follows:

	2011 $	2010 $
Net income (loss) before income taxes	34,174	(50,967)
Tax rate	27.12%	28.42%
Expected income tax expense (recovery)	9,268	(14,485)
Tax losses expired	-	2,150
Tax benefit of losses not recognized (or utilized tax benefit)	(9,268)	12,335
Provision for income taxes	-	-

The Company's tax pools associated with capital asset and exploration expenditures exceed the related book values by approximately $3,188,003 (2010 – $3,184,089). In addition, the Company has non-capital losses of approximately $211,889 (2010 – $248,963) which may be carried forward to reduce taxable income of future years. No benefit has been recognized in these accounts. The losses expire as follows:

	$
2026	10,879
2027	92,204
2028	31,425
2029	30,572
2030	46,809
	211,889

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.

The Company currently has negative working capital and a deficit. 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.

A 10% change in the Australian exchange rate would have resulted approximately in $2,400 increase or decrease in net income for the year.

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 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 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), resulting in the following minimum annual payments.

	$
2012	10,491
2013	10,491
2014	10,491
2015	10,491
2016	10,491
2017 - 2030	136,383

The validity of the licensing agreement with Wamtech Pty entered into July 5, 1999 has been disputed by the successor of 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. See subsequent event note 17.

Effective October 5, 2010 ALS granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. Digger is obliged pay to 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 met, this agreement results in the following minimum payments:

	$
2013	52,455
2018 if the renewal is exercised	209,820
	262,275

15 Significant customers

The Company earned 100% of its revenue from one external customer in the year ended July 31, 2011. In 2010 100% of the Company's revenue was from one customer who was a related party.

16 Changes in non-cash working capital accounts

	2011 $	2010 $
Operating activities		
Accounts receivable	73	304
Accounts payable and accrued liabilities	21,358	483
	21,431	787

17 Subsequent events

On August 12, 2011, as described in note 8, the Company has issued 2,000,000 common shares with warrants attached pursuant to the subscription agreement.

On October 2, 2011 the contract with Wamtech Pty disclosed in note 14 is no longer enforceable. As part of the settlement of the agreement there will be a gain of 20,000 Australian dollars recognized.