Digger Resources Inc.

Consolidated Financial Statements
July 31, 2012 and 2011

Independent Auditor's 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 statement of financial position as at July 31, 2012 and 2011 and August 1, 2010 and the consolidated statements of changes in equity, income and comprehensive income, and cash flows for the years ended July 31, 2012 and 2011, 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 International Financial Reporting Standards, 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 audits 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.

PricewaterhouseCoopers LLP
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

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, 2012 and July 31, 2011 and August 1, 2010 and their financial performance and their cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainty that may cast significant doubt about Digger Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta, Canada
October 9, 2012

Digger Resources Inc.

Consolidated Statements of Financial Position

	As at July 31, 2012 $	As at July 31, 2011 $	As at August 1, 2010 $
Assets			
Current assets			
Cash	129,603	59,933	533
Accounts receivable	208	133	206
	129,811	60,066	739
Non-current assets			
Capital assets (note 6)	2,388	821	1,087
Technology development costs (note 7)	-	-	3,827
	132,199	60,887	5,653
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	26,300	48,596	27,238
Demand advances from related companies (note 8)	-	248,012	313,310
Advances on share subscriptions (note 9)	-	65,000	-
	26,300	361,608	340,548
Equity			
Capital stock (note 9)	4,715,884	4,435,884	4,435,884
Warrants (note 9)	120,000	-	-
Share-based payments reserve	1,827,833	1,827,833	1,827,833
Deficit	(6,557,818)	(6,564,438)	(6,598,612)
	105,899	(300,721)	(334,895)
	-	-	-
	132,199	60,887	5,653

Going concern (note 2)
Commitments and Contingencies (note 14)
Subsequent events (note 18)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

____________________ Director ____________________ Direct

Norman Yeo Graeme Wallace

Digger Resources Inc.

Consolidated Statements of Changes in Equity

For the years ended July 31, 2012 and 2011

	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	-	-	-	34,174	34,174
Balance July 31, 2011	4,435,884	-	1,827,833	(6,564,438)	(300,721)
Balance July 31, 2011	4,435,884	-	1,827,833	(6,564,438)	(300,721)
Net income	-	-	-	6,620	6,620
Shares issued (note 9)	280,000	-	-	-	280,000
Fair market value of warrants issued (note 9)	-	120,000	-	-	120,000
Balance July 31, 2012	4,715,884	120,000	1,827,833	(6,557,818)	105,899

Digger Resources Inc.

Consolidated Statements of Income and Comprehensive Income

For the years ended July 31, 2012 and 2011

	2012 $	2011 $
Revenue		
Sales (note15)	30,690	124,800
	30,690	124,800
Expenses		
Professional fees	43,105	32,111
Depreciation and amortization	956	4,093
Office and administrative	20,293	17,137
License fees	-	10,491
Laboratory analysis	-	26,794
	64,354	90,626
Other income (note 14)	40,284	-
Income before income taxes	6,620	34,174
Income taxes (note 11)	-	-
Net income for the year	6,620	34,174
Net income and comprehensive income for the year	6,620	34,174
Net income per share – basic and diluted	0.001	0.004

Going concern (note 2)

See accompanying notes to consolidated financial statements.

Digger Resources Inc.

Consolidated Statements of Cash Flows

For the years ended July 31, 2012 and 2011

	2012 $	2011 $
Cash flows provided by (used in)		
Operating activities		
Net income for the year	6,620	34,174
Items not affecting cash		
Depreciation and amortization	956	4,093
Non-cash other income	(20,982)	-
	(13,406)	38,267
Net change in non-cash working capital items (note 16)	(1,389)	21,431
	(14,795)	59,698
Investing activity		
Acquisition of capital assets	(2,523)	-
	(2,523)	-
Financing activities		
Shares issued net of advances	335,000	-
Repayment of advances to related companies	(248,012)	(65,298)
Advances on share subscriptions	-	65,000
	86,988	(298)
Increase in cash for the year	69,670	59,400
Cash – Beginning of year	59,933	533
Cash – End of year	129,603	59,933
Supplementary information		
Interest paid	-	-
Taxes paid	-	-

Going concern (note 2)

See accompanying notes to consolidated financial statements

1 Nature of operations

Digger Resources Inc.'s ("Digger" or the "Company") 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.

Digger is a publicly traded company, incorporated and domiciled in Canada. The address of its registered office is Suite 700, 595 Burrard Street, Vancouver, British Columbia, V7X 1S8, Canada.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors (the "Board") on October 9, 2012.

2 Going concern assumption

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

However, the use of such principles may not be appropriate because there is significant doubt surrounding the ability of Digger to continue as a going concern. For the year ended July 31 2012, Digger generated negative cash flow from operations and has historically, financed its operations through the use of funds obtained from related parties. Furthermore, Digger has not yet secured any contracted revenue for fiscal 2013.These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Digger's ability to continue as a going concern is dependent on successfully marketing the technology and contracting future revenue. In recognition of these circumstances, Digger is still looking for external markets for its HDRG technology. In the current year Digger completed projects using its HDRG technology, which resulted in revenue of $30,690 (2011 — $124,800). Management is confident that 2013 will see advancement in the use of HRDG technology, 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 fund its operations and to market its HDRG technology to vendors.

While there can be no assurance that these initiatives will be successful, management believes that future contracts and related party funding will contribute adequate cash flow so Digger can continue as a going concern. 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.

3 Basis of presentation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Subject to certain transition elections disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at August 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended July 31, 2010 prepared under Canadian GAAP.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of October 9, 2012 the date the Board of Directors approved the statements.

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are noted below with further details of the assumptions contained in the relevant note.

Share-based payments and warrants

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.

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:

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy.

b) Functional and presentation currency

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

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 income.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank less outstanding cheques.

d) Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the company. These criteria are met and HDRG revenue is recognized based on number of samples analyzed in accordance with the agreed contractual obligations and payment is reasonably assured.

e) Consolidation

The financial statements consolidate the accounts of Digger Resources Inc. and its subsidiaries. Subsidiaries are those entities (including special purpose entities) which Digger Resources Inc. controls by having the power to govern the financial and operating policies. The consolidated financial statements include the accounts of the Company and its inactive wholly owned subsidiary, Color Lazer Products Inc. Subsidiaries are fully consolidated from the date on which control is obtained by Digger Resources Inc. and are de-consolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

f) 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. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

g) Capital assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Depreciation 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

Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or 'CGUs'). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

Impairment losses and gains and losses on disposals of property, plant and equipment and are included in statement of income and comprehensive income.

Impairments of property, plant and equipment are only reversed when there is significant evidence that the impairment has been reversed, but only to the extent of what the carrying amount would have been had no impairment been recognized.

h) 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 contribution surplus within equity. Warrants that have their term of expiries extended are not subsequently revalued.

i) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

j) 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.

k) Financial instruments – recognition and measurement

The Company has classified its financial instruments as follows: cash and cash equivalents and 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.

l) Earnings per share

The earnings per share is calculated using the weighted average number of shares outstanding. 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 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.

m) Future accounting pronouncements

i) 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. This amendment is not expected to significantly impact the Company.

ii) 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. This amendment is not expected to significantly impact the Company.

iii) 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. This amendment is not expected to significantly impact the Company.

iv) 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. This amendment is not expected to significantly impact the Company.

v) 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. This amendment is not expected to significantly impact the Company.

vi) 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 August 1, 2010	231,764	50,504	282,268
Additions	-	-	-
Balance July 31, 2011	231,764	50,504	282,268
Additions	2,523	-	2,523
Balance July 31, 2012	234,287	50,504	284,791

Accumulated depreciation	**Computer equipment $**	**Office equipment $**	**Total $**
Balance August 1, 2010	231,281	49,900	281,181
Depreciation	145	121	266
Impairment/ disposals	-	-	-
	231,426	50,021	281,447
Balance July 31, 2011	231,426	50,021	281,447
Depreciation	860	96	956
Impairment / disposals	-	-	-
Balance July 31, 2012	232,286	50,117	282,403
Net book value at July 31, 2012	2,001	387	2,388

7 Technology development costs

Cost	**Technology development costs $**
Balance August 1, 2010	200,667
Additions	-
Balance July 31, 2011	200,667
Additions	-
Balance July 31, 2012	200,667

Accumulated amortization	**Technology development costs $**
Balance August 1, 2010	196,840
Amortization	3,827
Balance July 31, 2011	200,667
Amortization	-
Balance July 31, 2012	200,667
Net book value at July 31, 2012	-

8 Related party transactions

The advances from related companies in the amount of $nil (July 31, 2011 – $248,012 and August 1, 2010 – $313,310) are noninterest bearing and are owing to companies owned by two directors. These transactions were measured at the fair value and are payable on demand.

The advances were repaid during the year ended July 31, 2012 with funds from the non-brokered private placement outlined in note 9.

Digger incurred consulting costs in amount of $800 (2011 – $nil) and legal services in the amount of $nil (2011 – $3,528) provided by close family members of key management personal of Digger.

9 Capital stock and warrants

Authorized

100,000,000 common shares with no par value (2011 – 100,000,000)

Issued

Capital stock	**July 31, 2012**		**July 31, 2011**	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Balance – Beginning of year	9,349,035	4,435,884	9,349,035	4,435,884
Shares issued on private placement	2,000,000	280,000	-	-
Balance – End of year	11,349,035	4,715,884	9,349,035	4,435,884

Warrants	**July 31, 2012**		**July 31, 2011**	
	Number of warrants	**Amount $**	**Number of warrants**	**Amount $**
Balance – Beginning of year	-	-	-	-
Fair market value of warrants issued	2,000,000	120,000	-	-
Balance – End of year	2,000,000	120,000	-	-

During July 2011, the Company received $65,000 from a related party for the purchase of shares. This share purchase did not close until August 12, 2011, therefore the amount was recorded in 2011 as an advance which was settled in fiscal 2012.

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:

	July 31, 2012	July 31, 2011
Risk-free interest rate	1.95%	-
Expected stock price volatility	60%	-
Expected dividend yield	0.00%	-
Expected warrant life in years	1	-

10 Share-based payments

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 and are equity settled. 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, 2012 and July 31, 2011, and changes during the period then ended are as follows:

	July 31, 2012		July 31, 2011	
	Stock options	Weighted average exercise price $	Stock options	Weighted average exercise price $
Outstanding – Beginning of year	150,000	0.40	1,125,000	0.40
Granted during the year	-	-	-	-
Expired during the year	(150,000)	-	(975,000)	-
Outstanding – End of year	-	-	150,000	0.40
Exercisable – End of year	-	-	150,000	0.40

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 Income taxes

	2012 **$**	**2011** **$**
Net income before income taxes	6,620	34,174
Tax rate	25.62%	27.12%
Expected income tax expense	1,696	9,268
Impact of tax rate change and other	(38)	-
Tax benefit of losses not recognized (or utilized tax benefit)	(1,658)	(9,268)
Provision for income taxes	-	-

The Company tax pools associated with non-capital losses and capital assets and exploration expenditures which exceed the related book values are as follows:

Deductible Temporary Differences	**2012** **$**	**2011** **$**
Capital assets	277,090	276,134
Intangible assets	162	187
Exploration expenditures	2,911,861	2,911,861
Non-capital losses	203,145	211,889
	3,392,258	3,400,071

As at July 31, 2012, no deferred tax asset was recognized in the statement of financial position for these deductible temporary differences due to uncertainties around future profitability.

The non-capital losses expire as follows:

	$
2026	2
2027	92,204
2028	31,425
2029	30,572
2030	46,809
	201,012

12 Financial Instruments

a) 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.

b) 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.

c) 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 contracted revenue and dependency on related party funding. To mitigate liquidity risk that is attributed to accounts payable and accrued liabilities, 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 cash flow from operations, an accumulated deficit at July 31, 2012 and no revenue contracted for 2013, therefore a going concern note (note 2) is included in the consolidated financial statements.

d) 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.

i) 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.

ii) 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 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. See note 2 - going concern.

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. Also on March 15, 2012, the Company received the amount of $19,302 as a refund of fees for 2008 and 2009 which were previously paid under the contract.

Effective October 5, 2010, ALS Laboratory Group ("ALS") granted to Digger an exclusive non-assignable right to market a proprietary ALS partial extraction leachant. The term of the agreement with ALS is for three years with two renewable terms thereafter of five years each by the end of the third year (October 2013) of the contract, based on successful achievement of performance objectives as follow:

a) In the last full year of the first three year license term (October 2013) 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 (October 2018) 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.

15 Significant customers

The Company earned 100% of its revenue from one external customer in the year ended July 31, 2012 and 2011.

16 Changes in non-cash working capital accounts

	2012 $	2011 $
Operating activities		
Trade and other receivables	(75)	73
Trade and other payables	(22,296)	21,358
Less: non-cash other income	20,982	-
	(1,389)	21,431

17 Impact of the adoption of IFRS

These consolidated financial statements are the Company's first annual statements 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 are disclosed in note 17.d. However, IFRS1 also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters as follows.

a) 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.

b) 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.

c) 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.

d) 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 statements of income and comprehensive income, statement of changes in equity, and cash flows for the year ended July 31, 2011, as well as to the consolidated statements of financial position as at August 1, 2010 and July 31, 2011.

i) Consolidated Statement of Income and Comprehensive Income 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
Licence 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

ii) Consolidated Statements of Cash Flows and Statement of Changes in Equity for the year ended 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 year ended July 31, 2011. As a result, the consolidated statement of cash flows and changes in equity for the above noted periods have not been presented.

iii) Summary Consolidated Statement of Financial Position as at August 1, 2010

	Canadian GAAP $	IFRS adjustments $	IFRS $
Assets			
Current assets			
Cash	533	-	533
Accounts receivable	206	-	206
	739	-	739
Capital assets	1,087	-	1,087
Technology development costs	3,827	-	3,827
	5,653	-	5,653
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	27,238	--	27,238
Advances from related companies	313,310	--	313,310
Advances on share subscriptions	-	--	-
	340,548	-	340,548
Shareholders' Equity			
Capital stock	4,435,884	-	4,435,884
Contributed surplus	1,827,833	-	1,827,833
Deficit	(6,598,612)	-	(6,598,612)
	(334,895)	-	(334,895)
	5,653	-	5,653

iv) Summary Consolidated Statement of Financial Position as at July 31, 2011

	Canadian GAAP $	IFRS adjustments $	IFRS $
Assets			
Current assets			
Cash	59,933	-	59,933
Accounts receivable	133	-	133
	60,066	-	60,066
Capital assets	821	-	821
Technology development costs	-	-	-
	60,887	-	60,887
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	48,596	-	48,596
Advances from related companies	248,012	-	248,012
Advances on share subscriptions	65,000	-	65,000
	361,608	-	361,608
Shareholders' Equity			
Capital stock	4,435,884	-	4,435,884
Contributed surplus	1,827,833	-	1,827,833
Deficit	(6,564,438)	-	(6,564,438)
	(300,721)	-	(300,721)
	60,887	-	60,887

18 Subsequent events

On August 9, 2012 the TSX Venture Exchange consented to an extension of the expiry date of the warrants from August 12, 2012 to February 13, 2013.

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 $0.15 per share and vest in six equal tranches for a term of five years from the date of grant.