

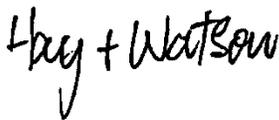
## AUDITORS' REPORT

To the Shareholders of  
Peregrine Diamonds Ltd.

We have audited the consolidated balance sheets of Peregrine Diamonds Ltd. as at September 30, 2008 and 2007 and the consolidated statements of operations, shareholders' equity 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 September 30, 2008 and 2007 and the results of its operations and its cash flows for the years then in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Vancouver, British Columbia  
December 10, 2008

# PEREGRINE DIAMONDS LTD.

## Consolidated Balance Sheets

As at September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,068,996	\$ 5,874,870
Accounts receivable	414,066	2,193,256
Prepaid expenses	682,346	1,978,358
	<u>3,165,408</u>	<u>10,046,483</u>
INVESTMENTS (Note 6)	25,200	98,830
MINERAL PROPERTIES (Note 7)	2,688,603	2,593,128
OTHER CAPITAL ASSETS (Note 9)	346,020	571,954
DEPOSITS ON PROPERTY AND EQUIPMENT	151,758	741,369
	<u>\$ 6,376,989</u>	<u>\$ 14,051,762</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,559,444	\$ 7,341,587
RECLAMATION OBLIGATIONS	-	75,825
	<u>1,559,444</u>	<u>7,417,412</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	85,713,038	76,660,441
Contributed surplus	3,900,999	3,361,948
Deficit	(84,771,295)	(73,390,031)
Other comprehensive income	(25,198)	1,992
	<u>4,817,545</u>	<u>6,634,350</u>
	<u>\$ 6,376,989</u>	<u>\$ 14,051,762</u>

The accompanying notes are an integral part of these financial statements.

APPROVED BY THE BOARD:

"Gordon Keep"

Director

"Robert Boyd"

Director

**PEREGRINE DIAMONDS LTD.**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>EXPENSES</b>		
Accounting and audit fees	\$ 89,538	\$ 117,881
Consulting	147,235	109,616
Depreciation	287,993	249,557
Filing fees	65,486	81,393
Legal	113,759	178,637
Insurance	146,247	160,972
Investor relations	56,791	55,751
Office and administration	261,840	270,527
Salaries and benefits	814,729	715,165
Travel	70,711	140,605
Stock-based compensation	327,047	497,608
Exploration (Schedule)	10,485,387	35,883,208
	<b>12,866,763</b>	<b>38,460,920</b>
<b>OTHER (INCOME)/EXPENSES</b>		
Interest income	(120,560)	(901,239)
Mineral property write-downs	126,808	-
Foreign exchange	(3,210)	(22,522)
Other income	(4,993)	(76,756)
	<b>(1,955)</b>	<b>(1,000,517)</b>
Loss before income taxes	12,864,808	37,460,403
Future income tax recovery (Note 10)	(1,483,544)	(2,729,600)
<b>NET LOSS</b>	<b>\$ 11,381,264</b>	<b>\$ 34,730,803</b>
<b>BASIC AND DILUTED</b>		
<b>LOSS PER SHARE</b>	<b>\$ (0.19)</b>	<b>\$ (0.69)</b>
<b>WEIGHTED AVERAGE NUMBER OF</b>		
<b>SHARES OUTSTANDING</b>	<b>59,725,277</b>	<b>50,315,885</b>

The accompanying notes are an integral part of these financial statements.

**PEREGRINE DIAMONDS LTD.**  
**Consolidated Statements of Shareholders' Equity**  
**Years Ended September 30, 2008 and 2007**

	Share Capital		Contributed Surplus	Deficit	Other Comprehensive Income	Total
	Number of Shares	Amount				
Balances, September 30, 2006	49,159,930	\$74,260,772	\$ 2,602,867	\$(38,510,167)	\$ 829	\$ 38,354,301
Shares issued (Note 11(b)):						
Warrants exercised	474,300	472,756	-	-	-	472,756
Private placement, net of share issue costs of \$126,006 and related future income taxes of \$2,729,600	3,200,000	5,144,394	-	-	-	5,144,394
Normal course issuer bid share repurchases (Note 11(f))	(1,690,900)	(3,217,481)	-	(149,060)	-	(3,366,541)
Stock-based compensation	-	-	759,081	-	-	759,081
Transfer to other income	-	-	-	-	(73,731)	(73,731)
Investment fair value adjustment	-	-	-	-	74,894	74,894
Net loss	-	-	-	(34,730,803)	-	(34,730,803)
Balances, September 30, 2007	51,143,330	76,660,441	3,361,948	(73,390,031)	1,992	6,634,350
Shares issued (Note 11(b)):						
Private placements, net of share issue costs of \$561,831 and related future income taxes of \$1,483,544	18,855,152	9,114,712	122,967	-	-	9,237,679
Normal course issuer bid share repurchases (Note 11(f))	(32,000)	(62,115)	19,205	-	-	(42,910)
Stock-based compensation	-	-	396,879	-	-	396,879
Transfer to other income	-	-	-	-	(12,620)	(12,620)
Investment fair value adjustment	-	-	-	-	(14,570)	(14,570)
Net loss	-	-	-	(11,381,264)	-	(11,381,264)
Balances, September 30, 2008	69,966,482	\$85,713,038	\$ 3,900,999	\$(84,771,295)	\$ (25,198)	\$ 4,817,545

The accompanying notes are an integral part of these financial statements.

**PEREGRINE DIAMONDS LTD.**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2008 and 2007**

<b>OPERATING ACTIVITIES</b>	<b>2008</b>	<b>2007</b>
Net loss	\$(11,381,264)	\$(34,730,803)
Items not affecting use of cash		
Depreciation	287,993	249,557
Stock-based compensation	396,879	759,081
Write-down of mineral property	126,808	-
Other loss/(income)	3,932	(76,756)
Reclamation obligation	(75,825)	-
Future income tax recovery	(1,483,544)	(2,729,600)
Unrealized foreign exchange gains/( losses)	(72)	1,722
	(12,125,093)	(36,526,799)
Changes in non-cash working capital items (Note 13)	(2,706,943)	1,729,799
	(14,832,035)	(34,797,000)
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	108,280	151,918
Proceeds from sale of other capital assets	13,000	-
Mineral properties	(222,283)	(132,632)
Other capital assets	(140,832)	(376,070)
Refund (payment) of deposits on mineral properties and equipment	589,611	(382,369)
Note receivable from related party	-	3,685,375
	347,776	2,946,222
<b>FINANCING ACTIVITIES</b>		
Shares issued for cash	10,721,224	8,346,750
Normal course issuer bid purchases	(42,910)	(3,366,541)
	10,678,314	4,980,209
<b>DECREASE IN CASH</b>	(3,805,946)	(26,870,569)
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH</b>	72	(2,656)
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	5,874,870	32,748,095
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	\$ 2,068,996	\$ 5,874,870
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF:</b>		
Cash in bank	\$ 2,068,996	\$ 277,685
Short-term deposits	-	5,597,185
	\$ 2,068,996	\$ 5,874,870

**SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)**

The accompanying notes are an integral part of these financial statements.

# **PEREGRINE DIAMONDS LTD.**

## **Notes to the Consolidated Financial Statements**

### **September 30, 2008 and 2007**

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#### **1. NATURE OF OPERATIONS**

Peregrine Diamonds Ltd. (“Peregrine”), (which, together with its subsidiaries, collectively referred to as the “Company”), is a Canadian exploration stage mining company which is focused on the exploration, development and recovery of minerals and precious gems.

The Company’s operations during the year ended September 30, 2008 were directed towards the exploration of the Company’s property interests located in the Northwest Territories, Nunavut and Manitoba, Canada. To date, the Company has not generated significant revenues from operations.

The Company is currently working on projects in locations which are subject to seasonal fluctuations; generally, significant activity on exploration projects located in northern Canada can only be undertaken during the summer months as this is when access to these projects and the ability to drill test prospective deposits is most feasible. Accordingly, the Company will typically incur the majority of its annual operating costs during the months of June through September. In past years, significant exploration expenditures were incurred during the winter months on a lake-based bulk sampling project which required frozen conditions to support large-diameter drilling equipment.

The Company has incurred significant losses since inception and as at September 30, 2008 has a working capital balance of \$1.6 million and an accumulated deficit of \$84.8 million. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, assuming that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company’s ability to raise the necessary funding through public equity or debt financings or through profitable operations in the future. If current market conditions and tightening credit markets persist for an extended period of time, this could negatively affect the Company’s ability to obtain equity financing or external debt financing. There can be no assurance that additional funding will be available to the Company or, if available, that this funding will be on acceptable terms.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The significant accounting policies used in these consolidated financial statements are as follows:

*(a) Basis of Consolidation*

These consolidated financial statements include the accounts of Peregrine and its wholly owned subsidiary, Peregrine Holdings Ltd. and the Company’s proportionate share of the WO joint venture (Note 8). All significant intercompany transactions and balances have been eliminated.

*(b) Accounting Estimates*

Generally accepted accounting principles require management to make assumptions and estimates that affect the reported amounts and other disclosures in these financial statements. Actual results may differ from those estimates.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Significant estimates used in the preparation of these financial statements include, among other things, the recoverability of accounts receivable, future income tax assets, investments and deposits, and the expected economic lives of and the estimated future operating results and net cash flows from mineral properties and other capital assets.

(c) *Foreign Currencies*

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses denominated in foreign currencies have been translated at rates approximating exchange rates in effect at the time of the transactions.

(d) *Financial Instruments*

Financial instruments are classified into various categories. Held to maturity investments, loans and receivables are measured at amortized cost, with amortization of premium or discounts, losses and impairment included in current period interest income or expense. Held for trading financial assets and liabilities are measured at fair market value with all gains and losses included in operations in the period in which they arise. Available for sale financial assets are measured at fair market value with revaluation gains and losses included in other comprehensive income (see (i) below) until the asset is removed from the balance sheet, and losses due to impairment are included in operations. All other financial liabilities are carried at amortized cost.

At present, the Company's most significant financial instruments are cash and cash equivalents, accounts receivable, investments and accounts payable. The Company considers its investments to be available for sale financial assets; accordingly, the carrying amounts of these investments have been adjusted to their fair market value and this adjustment has been included in other comprehensive income. Otherwise, there is no material difference in the accounting for the Company's remaining financial instruments, the carrying values of which approximate fair value due to their short-term maturity.

(e) *Mineral Properties*

The Company follows the method of accounting for its mineral properties whereby all direct costs related to their acquisition are capitalized by property. Exploration costs inclusive of exploration programs required under option agreements, net of incidental revenues, are charged to operations in the period incurred, until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(e) Mineral Properties (continued)*

The Company reviews the carrying values of its mineral properties whenever events or changes in circumstances indicate their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

On the commencement of commercial production, net capitalized costs will be charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

Where the Company's exploration and development activities are conducted jointly with others, these financial statements include only the Company's proportionate interests in the joint ventures.

*(f) Other Capital Assets*

Other capital assets are carried at cost less accumulated depreciation. These assets are depreciated using the straight-line method over the following periods:

Office equipment, furniture and fixtures	3-5 years
Plant, equipment and buildings	5-10 years

The Company reviews the carrying values of its other capital assets whenever events or changes in circumstances indicate their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets exceeds their current fair values.

*(g) Reclamation Obligations*

Liabilities related to environmental protection and reclamation costs are recognized when the obligation is incurred and the fair value of the related costs can be reasonably estimated. This includes future site restoration and other costs as required due to environmental law or contracts.

*(h) Income Recognition*

Interest from cash and cash equivalents and notes receivable is recorded on an accrual basis when collection is reasonably assured.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(i) *Comprehensive Income*

Comprehensive income is the change in net assets arising from transactions and other events and circumstances from non-owner sources and comprises net income and other comprehensive income. Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet, at which time the realized gains and losses will be included in operations. At present, the Company's only available for sale financial assets are investments.

(j) *Stock-based Compensation*

From time to time, the Company grants options to directors, employees and consultants to purchase common shares. The Company accounts for stock-based compensation using the fair-value method. Compensation costs, equal to the fair value of the options on the date of grant, are recognized in operations, with an offsetting credit to contributed surplus, for stock options granted to employees and directors over the period during which the related options vest. Compensation costs are recognized in operations, with an offsetting credit to contributed surplus, for options granted to non-employees based on the fair value of the options at the date granted. Consideration paid upon exercise of stock options, along with the applicable amount of contributed surplus, is credited to share capital.

(k) *Flow-through Shares*

The Company has issued flow-through shares to finance some of its exploration activities. These shares were issued for cash in exchange for the Company giving up the tax benefits arising from the exploration expenditures, in accordance with tax legislation. The Company records these share issuances by crediting share capital for the full value of cash consideration received and shows the related future income tax liability as a share issue cost.

(l) *Income Taxes*

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed on a regular basis and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(m) Loss Per Share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year. For this purpose, the “treasury stock method” is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. Common share equivalents have been excluded from the computation of diluted earnings per share for the periods presented as including them would have been anti-dilutive.

*(n) Comparative Amounts*

Certain prior period amounts have been restated to conform to the current year’s presentation.

**3. MANAGEMENT OF CAPITAL**

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue the development of its mineral properties. The Company considers its capital as its shareholders’ equity.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to issue new shares or acquire, dispose of or joint venture certain of its assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. Annual and materially updated budgets are approved by the Board of Directors.

There are no external restrictions on management of capital.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company’s investment policy is to invest any excess cash in liquid short-term interest-bearing instruments with maturities 90 days or less. When utilized, these instruments are selected with regard to the expected timing of expenditures from continuing operations. The Company currently does not have sufficient capital resources to meet its planned operations or administrative overhead expenses through its current operating period, and further exploration and development of the Company’s mineral properties in the near and long term will depend on the Company’s ability to obtain additional funding through equity or debt financing or through the joint venturing of projects. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

# **PEREGRINE DIAMONDS LTD.**

## **Notes to the Consolidated Financial Statements**

### **September 30, 2008 and 2007**

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#### **4. FINANCIAL INSTRUMENTS**

The Company's financial instruments are exposed to certain risks, which include currency risk, credit risk, interest rate risk, liquidity risk, and market risk.

##### Currency Risk

Currency risk is the risk of a loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations of foreign currency denominated monetary assets and liabilities. The Company currently operates only in Canada and all but a minimal amount of its monetary financial instruments are denominated in Canadian dollars. As such, the Company considers this risk to be minimal.

##### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held through large Canadian financial institutions. Accounts receivable consist mostly of refundable GST due from the federal Government of Canada and amounts receivable from related parties. Prepaid expenses are primarily mineral property permit and extension payments which will be refunded by the Government of Canada. As such, the Company considers this risk to be minimal.

##### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed rate cash equivalent investments of varying maturities. The risk that the Company will realize a loss as a result of a decline in the fair value of these investments is limited as these investments are highly liquid securities with short-term maturities.

##### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Accounts payable and accrued liabilities are due within the current operating period. The Company manages liquidity risk through the management of its capital structure (Note 3).

##### Market risk

The Company is exposed to market risk related to the fluctuation in the market price of its investments. Although considered available for sale, the Company's investments have been acquired as a result of property transactions and, to a large extent, represent strategic investments in related mining companies and their underlying properties. These investments do not normally represent core assets of the Company nor are they considered material. However, the Company closely monitors the market values of these investments in order to determine the most appropriate course of action.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**5. CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, evolving and being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be completed by 2011. The International Accounting Standards Board also has projects currently under way which should result in new pronouncements which will be included in the convergence process.

The Company intends to conduct a detailed assessment of the requirements of the transition to IFRS, with the intention of identifying the timing of the implementation of the transition, major differences in accounting policies and selecting the policies which are appropriate for the Company, identifying the appropriate disclosure in financial statements prepared under IFRS and developing an implementation plan.

**6. INVESTMENTS**

	September 30, 2008			September 30, 2007		
	Equity Interest	Unadjusted Carrying Value	Adjustment to Market Value	Adjusted Carrying Value	Equity Interest	Carrying and Market Value
International Samuel						
Exploration Corp.	1%	\$ 50,400	\$ (25,200)	\$ 25,200	1%	\$ 52,000
Thelon Ventures Ltd.	-	-	-	-	1%	46,830
		\$ 50,400	\$ (25,200)	\$ 25,200		\$ 98,830

During the year ended September 30, 2008, the Company made fair market value adjustments aggregating \$14,570 (2007 - \$74,894) on these investments, which it considers to be available for sale financial assets (Note 2(d)). Also during the year ended September 30, 2008, the Company sold an aggregate of 334,500 shares of Thelon Ventures Ltd. and 240,000 shares of International Samuel Exploration Corp. resulting in a transfer of the previous fair market value adjustments of \$12,620 (\$18,620 relating to Thelon Ventures Ltd. and losses of \$6,000 relating to International Samuel Exploration Corp.) from other comprehensive income to operations.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

**7. MINERAL PROPERTIES**

	Total	Chidliak	WO Property	Nanuq & Nanuq North	Other Baffin Island Properties	Others (Active)	Others (Inactive)
<b>Mineral Property Acquisition Costs</b>							
Balance, September 30, 2007	\$ 2,593,128	-	\$ 575,894	\$ 1,376,121	\$ 117,716	\$ 523,397	\$ -
Claimstaking & option costs	222,283	-	-	289,999	(117,716)	50,000	-
Mineral property write-downs	(126,808)	-	-	-	-	(126,808)	-
<b>Balance, September 30, 2008</b>	<b>\$ 2,688,603</b>	<b>\$ -</b>	<b>\$ 575,894</b>	<b>\$ 1,666,120</b>	<b>\$ -</b>	<b>\$ 446,589</b>	<b>\$ -</b>
<b>Cumulative Exploration Expenditures Written Off to Operations</b>							
Balance, September 30, 2007	\$ 70,110,645	\$ 944,118	\$ 47,093,390	\$ 4,584,496	\$ 3,157,889	\$ 8,709,380	\$ 5,621,373
Expenditures for the year	10,485,387	2,428,051	2,814,339	2,069,559	736,453	1,369,992	1,066,993
<b>Balance, September 30, 2008</b>	<b>\$ 80,596,032</b>	<b>\$ 3,372,169</b>	<b>\$ 49,907,729</b>	<b>\$ 6,654,055</b>	<b>\$ 3,894,342</b>	<b>\$ 10,079,372</b>	<b>\$ 6,688,365</b>

***Baffin Island, Nunavut***

On June 29, 2005 the Company entered into an agreement with BHP Billiton Diamonds Inc. (“BHP Diamonds”) regarding a sampling program on a region known as Area 15 which covers much of Baffin Island. Under the terms of this agreement, BHP Diamonds will provide the Company with technical data in order that the Company may develop areas of advanced exploration interest. BHP Diamonds will retain back-in rights on these properties which provide that, under various scenarios, BHP Diamonds may acquire up to a 65% interest in these properties. Currently, the Company is undertaking exploration activity on Baffin Island and has been issued 60 prospecting permits for a 983,832 hectare area known as the Chidliak project, 39 prospecting permits for a 654,411 hectare area known as the Kimmirut project, 21 prospecting permits for a 312,730 hectare area known as the Mirage Bay project, 4 prospecting permits for a 36,266 hectare area known as the Timmijuuq project and a further 12 prospecting permits for a 299,755 hectare area known as the Flint Lake project. In May 2006, the Company and BHP Diamonds entered a second agreement identical to the foregoing which covers 32 prospecting permits over a 449,004 hectare area on coastal islands around Baffin Island known as Foxe Basin. (see - ***BHP Falcon System and Back-in Rights***). At this time, the Company is planning no further exploration work on the Foxe Basin, Mirage Bay and Timmijuuq projects.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**7. MINERAL PROPERTIES (Continued)**

*Nanuq and Nanuq North Properties, Nunavut*

The Nanuq and Nanuq North properties are located approximately 225 kilometers (“km”) east-northeast of the town of Baker Lake. The Nanuq property consists of 320 mineral claims covering 313,859 hectares which are 100% owned by the Company. The Company has entered an agreement with Indicator Minerals Inc. (‘Indicator’) and Hunter Exploration Group (‘Hunter’) on the Nanuq North property which consists of 51 claims covering an area of 33,100 hectares immediately north of the Nanuq property. Under the terms of the agreement, a joint venture will be formed with Indicator as the operator and the Company and Indicator sharing the costs of exploration on a 50/50 basis. The parties’ ownership interests are 40% for the Company, 40% for Indicator and 20% for Hunter on an area of 13,864 hectares comprising 16 claims that had originally been staked by Hunter. In addition, Hunter will retain a gross overriding royalty of 2% on any revenues generated from this smaller area. The balance of the claims is owned 50:50 by the Company and Indicator.

*WO Property, Northwest Territories*

The WO Property is located approximately 300 km north-northeast of the city of Yellowknife in the Northwest Territories, Canada; it comprises 14 mineral claims and 3 mineral leases covering an area of 15,107 hectares. By agreement dated April 21, 2004, the Company acquired a 38.475% interest in the WO Property from BHP Diamonds. Under the terms of a letter agreement dated December 6, 2002, as amended September 20, 2004 and June 13, 2005 (collectively, the “WO Property Agreement”), which presently governs the interests in the WO Property held by the Company and its joint venture partners, the Company increased its interest to 54.475% by solely funding a bulk sampling program and by agreeing to proceed with a \$500,000 core drilling program on the DO-27 project which was completed by December 2005. Thereafter, all further expenditures, including additional expenditures to be made on the core drilling program, are to be made by the joint venture partners in accordance with their respective interests in the WO Property or their interests would be diluted (Note 8). There is an overriding royalty interest of 1.3% of the sales proceeds of diamonds produced on these claims.

In December 2006 and September 2008, certain of the participants in the WO joint venture elected not to make their cash call payments and to allow their interests to be diluted. Consequently, the respective interests of the remaining joint venture participants have been revised on a relative basis, with the Company’s interest in this joint venture increasing to 71.85% (2007 - 71.74%), and the overriding royalty interest of the sales proceeds of diamonds produced on these claims has increased to 1.8%.

The Company is currently assessing potential future development activity at the DO-27 kimberlite and no current exploration or development activities are planned. The Company’s management has concluded that the development of the DO-27 project is not justifiable under current economic conditions, but believes there is a reasonable chance that DO-27 could support a mining operation in the future.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**7. MINERAL PROPERTIES (Continued)**

*Lac de Gras Properties, Northwest Territories*

Lac de Gras East

The Lac de Gras East property consists of 81 mineral claims covering 78,153 hectares, located 300 km northeast of Yellowknife. The Company has earned a 65% interest on 24 of these claims from Thelon Ventures Ltd. ('Thelon') by having fulfilled a contractual commitment to make certain share payments and by spending an aggregate of \$4.1 million on exploration on Lac de Gras East and West properties. The balance of these claims are owned 100% by the Company.

Lac de Gras West

The Lac de Gras West property consists of 40 mineral claims covering 34,234 hectares, located 275 km northeast of Yellowknife. The property is 15 to 40 km southwest of the Ekati Diamond Mine and 15 to 50 km west of the Diavik Diamond Mine. The Company has earned a 65% interest on 22 of these claims from Thelon by having fulfilled a contractual commitment to make certain share payments and by spending an aggregate of \$4.1 million on exploration on Lac de Gras East and West properties. The balance of these claims are owned by the Company.

In addition to the foregoing, agreements with a private prospecting syndicate from whom the Company acquired certain of the Lac de Gras East and West property claims provide for a discovery bonus to be paid to the syndicate in the amount of 2,500 common shares of the Company for the first kimberlite discovered on the property and a discovery bonus of 1,250 common shares of the Company for each subsequent kimberlite discovery on the property up to a maximum of 50,000 common shares. To date, no discovery bonuses have been paid. These properties are subject to a gross overriding royalty of 2% of all diamond production; 50% of this royalty can be purchased by the Company for \$1 million.

*Pellatt Lake Property, Northwest Territories*

The Pellatt Lake Property is located 42 km to the northeast of the Ekati Mine at Lac de Gras, around the southern part of Pellatt Lake, Windy Lake and the northern part of Hardy Lake. The property covers an area of 29,263 hectares and consists of 25 claims and three mineral leases; the latter were acquired by DHK Resources Inc. ('DHK') from Kennecott Canada Exploration Inc. which maintains a gross overriding royalty of 1% on these leases. Three of the claims were staked in 2000 by DHK and 7 claims were staked in 2003 by Dentonia Resources ("Dentonia").

By way of an amending agreement entered into in March 2007, the Company has a right to earn a 51% interest in these claims (the 'First Option') by completing drill testing of certain defined target areas by December 31, 2008 (which has been done). The Company has a second option to earn another 14% interest in a target area by completing a 100 tonne bulk sample by the fifth anniversary of the date of the election to acquire its initial 51% interest in that target area. The Company has a third option to earn another 10% in a target area by arranging all financing to put the target area into production. Dentonia and DHK will reimburse their share of debt servicing and capital repayment out of the balance of their share of mining cash flow plus 2% above the Company's financing costs. The Company is reviewing the results of the Pellatt Lake drill program and has until March 31, 2009 to declare its intention to acquire the 51% interest under the First Option. The remaining 15 claims were staked in 2004 by the Company and are 100% owned by the Company.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**7. MINERAL PROPERTIES (Continued)**

*Manitoba*

On April 20, 2006, the Company entered an agreement whereby the Company was granted an option to acquire a 90% interest in a mineral exploration license ("MEL") comprising 7,572 hectares located in Manitoba, Canada known as the Crosswell property. Under the terms of this agreement, the Company was required to pay an aggregate of \$300,000 (of which \$35,000 was paid) to the vendor over a five-year period ending in 2011 and incur minimum assessment expenditures on the property aggregating \$600,000 over the same period. Based on the results of a drill program conducted in March and April 2008, the Company has determined that no further exploration work is warranted. Accordingly, the Company has terminated this option and has written-off accumulated mineral property acquisition costs of \$35,000.

On July 18, 2006, the Company entered an agreement whereby the Company was granted an option to acquire a 90% interest in three MELs comprising 31,515 hectares located in Manitoba, Canada known as the Weir River property. Under the terms of this agreement, the Company was required to pay an aggregate of \$460,000 (of which \$90,000 was paid) to the vendor over a five-year period ending in 2011 and incur minimum assessment expenditures on the property aggregating \$950,000 over the same period. Based on the results of a drill program conducted in March and April 2008, the Company has determined that no further diamond exploration work is warranted and has written-off accumulated mineral property acquisition costs of \$90,000. The Company has entered into a revised option agreement with the vendor whereby the remaining property payments and expenditure obligations have been extended for a period of two years. Accordingly, the Company will maintain its interest in one of the MELs for the forthcoming 2-year period in order to analyze its potential for metals based anomalies.

During the year ended September 30, 2008, the Company received grants from the Government of Manitoba in respect of the Crosswell and Weir River projects under the Manitoba Mineral Exploration Assistance Program. The grant amounts received totalled \$224,358 and were credited to operations. In order to receive these grants, the Company was required to perform certain exploration activities in the Province of Manitoba and to file interim and final reports on prescribed due dates. There is no repayment required, contingent or otherwise, in respect of these grants and, as the Company has discontinued operations in Manitoba, no future grants will be received on these projects.

# **PEREGRINE DIAMONDS LTD.**

## **Notes to the Consolidated Financial Statements**

### **September 30, 2008 and 2007**

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#### **7. MINERAL PROPERTIES (Continued)**

##### *TW and IM Properties, Northwest Territories*

The Company acquired a 100% interest in certain mineral exploration claims with an aggregate area of approximately 206,400 hectares located in the Northwest Territories, Canada known as the TW and IM properties. Based on the results of geophysical surveys and other work undertaken in 2005 and 2006, the Company has determined that no further diamond exploration work is warranted and, with the exception of the claims discussed below, all claims will be allowed to lapse.

In April 2006, the Company granted Viking Exploration Inc. ('Viking') an option to acquire a 60% interest in the Company's right in the TW property with respect to gold exploration. Under the terms of this agreement, Viking must complete an airborne geophysical survey over the property by December 31, 2006 (which has been completed), incur aggregate exploration expenditures of \$1 million (of which \$195,000 has been spent) on the property within a period of 4 years from the date of the agreement and maintain all permits on the property in good standing for the duration of the agreement.

##### *BHP Falcon System and Back-in Rights*

On July 6, 2007, the Company entered into a new Falcon™ system deployment agreement with a number of affiliated companies of BHP Diamonds (collectively referred to herein as "BHP Diamonds")(the "BHP Framework Agreement") which governs the Company's use of the Falcon™ airborne gravity gradiometer system as well as BHP Diamonds' rights to earn into certain mineral discoveries made by that system.

In addition, the BHP Framework Agreement rationalizes the numerous joint venture, back-in, and Falcon™ data usage and deployment agreements that existed between the Company and BHP Diamonds on various diamond, copper and IOCG properties located in Canada, United States, Mexico, and Peru.

Highlights of the BHP Framework Agreement include:

- Termination of BHP Diamonds' right to back-in to the WO Property, Lac de Gras East, Nanuq, Pellatt Lake, TW, IM, and US Generative Properties (as well as the Great Bear, Ica and Mexico properties owned by Peregrine Metals Ltd. – a company related to Peregrine by way of officers in common) (collectively the "Royalty Properties"). These back-in rights have been replaced with royalties in favour of BHP Diamonds as follows: 0.7% on the WO property (other than existing mineral discoveries including DO-18 and DO-27, on which no rights to acquire existed and no royalties are applicable); 1% on the Great Bear property and the Pellatt Lake property; and 2% on the Nanuq property and the TW and IM properties. Marketing rights in respect of diamond production in favour of BHP Diamonds also apply to the Royalty Properties for a period of three years from the date of commencement of commercial production. The royalties can be purchased by the Company, in whole or in part, at the completion of a feasibility study, for an independently determined fair market value.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**7. MINERAL PROPERTIES (Continued)**

- BHP Diamonds retains the right to acquire up to 58% of the Chidliak, Kimmirut, Flint Lake, Foxe Basin, Mirage Bay and Timmijuuq properties, and on certain other areas on Baffin Island where the Company may acquire mineral rights in the future. To exercise its acquisition rights, BHP Diamonds must first expend US\$15 million to US\$50 million per property, depending on when the earn-in commences, to earn a 51% interest. BHP Diamonds can earn an additional 7% interest by delivering a bankable feasibility study. Additional conditions exist for the creation of a 51-49% joint venture between the parties in the event BHP Diamonds does not acquire beyond 51%. In the event BHP Diamonds elects not to exercise its acquisition right at any stage, it retains a 1% royalty on properties generated by the Company and a 2% royalty on properties generated by BHP Diamonds. Under certain circumstances, BHP Diamonds can retain all marketing rights in respect of diamond production for a period of three years following the commencement of commercial production.
- The Company (and affiliates) will have the right, but not the obligation, to use up to 40,000 line kilometres of Falcon<sup>TM</sup> airborne gravity gradiometer surveys per year until October 1, 2009. The Company in turn granted Peregrine Metals Ltd. an option to utilize up to 20,000 line kilometers of this right per year.
- During 2008, BHP Billiton negotiated the sale of its Falcon<sup>TM</sup> airborne gravity gradiometer system to a third party. On November 21, 2008, Peregrine entered into an agreement with the third party whereby Peregrine will continue to have access to the Falcon<sup>TM</sup> system until October 1, 2009. In December 2008, Peregrine and BHP Billiton entered into a revised BHP Framework Agreement whereby BHP Billiton retains all its existing acquisition rights on properties currently owned by Peregrine but will have no acquisition rights, royalty rights or any other rights to any property where the Company conducts a Falcon<sup>TM</sup> survey in the future.

**8. INVESTMENT IN JOINT VENTURES**

***WO Joint Venture***

The Company has a 71.85% interest in a joint venture formed to explore for diamonds at the WO project in the Northwest Territories, Canada. As the Company has a majority interest in the joint venture, it is the operator of the joint venture. Under the terms of the joint venture agreement, participants can elect to withhold funding of the joint venture resulting in the dilution of their respective interests.

For the year ended September 30, 2008, the WO joint venture incurred expenditures of \$4.2 million (2007 - \$36.8 million), \$1.2 million (2007 - \$10.4 million) of which were financed from cash contributions from the other joint venture participants. There are no contingent or other liabilities relating to the Company's interest in the WO joint venture which have not been recorded in the Company's accounts.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

**9. OTHER CAPITAL ASSETS**

	September 30, 2008			September 30, 2007
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Office equipment, furniture and fixtures	\$ 510,442	\$ (397,934)	\$ 112,509	\$ 262,049
Plant and equipment	246,896	(98,388)	148,508	172,935
Buildings	158,443	(73,439)	85,004	136,970
	<u>\$ 915,781</u>	<u>\$ (569,761)</u>	<u>\$ 346,020</u>	<u>\$ 571,954</u>

During the year ended September 30, 2008, certain other capital assets that were utilized at the WO property were written down or their amortization was accelerated by an aggregate \$143,301 to an estimated net realizable value of \$nil as a result of the completion of the exploration phase of the WO project. These assets consisted of items which have no utility outside the confines of the WO project site.

**10. INCOME TAXES**

The Company's future income tax assets and liabilities are:

	September 30,	
	2008	2007
Future income tax assets		
Mineral properties	\$ 37,030	\$ 4,762
Investments	17,364	21,977
Other capital assets	187,246	110,776
Exploration expense pools	16,563,537	17,579,430
Tax loss carry forwards	3,440,148	2,923,853
Total future income tax assets	<u>20,245,325</u>	<u>20,640,798</u>
Valuation allowance	(20,245,325)	(20,640,798)
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>
Future income tax liabilities		
Investments	\$ -	\$ -
Net future income tax liabilities	<u>\$ -</u>	<u>\$ -</u>

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**10. INCOME TAXES (Continued)**

A reconciliation of the provision for recovery of income taxes is as follows:

	<u>Year Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>
Loss before income taxes	\$ 12,864,808	\$ 37,460,403
Combined Canadian federal and provincial statutory tax rates	31.0%	34.1%
Recovery of income taxes based on combined statutory tax rates	\$ 3,988,090	\$ 12,781,490
Deduct:		
Tax effect of current year's loss not recognized	(3,665,362)	(12,371,255)
Net effect of items that are not taxable or deductible	(322,729)	(410,235)
Add:		
Future income tax recovery realized on flow-through exploration expenditures	1,483,544	2,729,600
<u>Future income tax recovery</u>	<u>\$ 1,483,543</u>	<u>\$ 2,729,600</u>

At September 30, 2008, the Company has unrecognized non-capital losses for income tax purposes of approximately \$11.5 million that may be used to offset future taxable income. These losses, if not utilized, will expire during the period 2010 to 2028. In addition to these tax losses, the Company has resource related expenditures of approximately \$66.1 million, net of renounced exploration expenditures, which can be used to offset future Canadian taxable income and can be carried forward indefinitely.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**11. SHARE CAPITAL**

- (a) The Company's authorized capital consists of an unlimited number of common shares without par value.
- (b) The Company has issued the following common shares during the period from September 30, 2006 to September 30, 2008:

	Number of Shares	Amount
Balance, September 30, 2006	49,159,930	\$ 74,260,772
Issued for cash:		
Flow-through shares, net of issue costs of \$126,006 and related future income taxes of \$2,729,600	3,200,000	5,144,394
Warrants Exercised	474,300	472,756
Normal course issuer bid share repurchases (f)	(1,690,900)	(3,217,481)
Balance, September 30, 2007	51,143,330	76,660,441
Issued for cash:		
Flow-through shares, net of issue costs of \$232,139 and related future income taxes of \$1,483,544	3,952,745	2,632,337
Flow-through shares, net of issue costs of \$154,360 (i)	7,106,000	2,972,280
Units, net of issue costs of \$27,060 and the fair value of the warrants included therein of \$122,967	2,490,000	845,972
Flow-through shares, net of issue costs of \$148,272 (i)	5,306,407	2,664,123
Normal course issuer bid share repurchases (f)	(32,000)	(62,115)
Balance, September 30, 2008	69,966,482	\$ 85,713,038

- (i) No recognition for related future income taxes have been made to these issues of flow-through shares as the exploration expenses relating to these shares have not been renounced by the Company as of year end.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**11. SHARE CAPITAL (Continued)**

- (c) Share options are granted at an exercise price equal to the market value of the Company's common shares on the date of the grant.

All share options vest in three equal stages. For 7,570,500 of the options outstanding at September 30, 2008 the first stage is the date of the grant and the remainder being two equal annual stages commencing on the first anniversary of the date of the grant. For the remaining 2,235,000 options, the first stage being six months after the date of grant and the remainder being in two equal semi-annual stages on the twelve-month and eighteen-month anniversaries of the date of the grant. All options granted are exercisable until the fifth anniversary of the date of grant. The share options are exercisable at the prices described below.

There are a total of approximately 9.8 million common shares reserved for the grant of stock options. A summary of the status of the Company's stock options outstanding as at September 30, 2008 and 2007 and changes during the periods ended on those dates is presented below:

	September 30, 2008		September 30, 2007	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	9,586,950	\$ 1.35	9,774,201	\$ 1.37
Granted	2,935,000	0.31	120,000	3.00
Exercised	-	-	-	-
Forfeited	(2,716,450)	2.62	(307,251)	2.92
Outstanding at end of year	9,805,500	0.60	9,586,950	1.35
Options exercisable at end of year	7,067,167	0.71	8,870,284	1.21
Weighted average remaining contractual life	3.1 years		3.3 years	

Subsequent to September 30, 2008, 750 stock options exercisable at \$7.00 per share expired and 10,000 stock options exercisable at \$0.44 per share were cancelled.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

**11. SHARE CAPITAL (Continued)**

Expiry Date	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Exercisable Options
October 7, 2008	750	7.00	0.02	750
January 23, 2009	1,500	8.00	0.32	1,500
April 13, 2009	750	7.20	0.53	750
February 2, 2010	27,500	4.00	1.34	27,500
January 18, 2011	2,820,000	0.42	2.30	2,820,000
January 18, 2011	2,640,000	0.92	2.30	2,640,000
January 18, 2011	1,035,000	0.92	2.30	1,035,000
January 18, 2011	130,000	0.44	2.30	130,000
August 7, 2011	105,000	0.44	2.85	105,000
February 7, 2012	30,000	3.00	3.36	20,000
February 7, 2012	30,000	0.44	3.36	20,000
May 14, 2012	50,000	0.44	3.62	33,333
December 1, 2012	300,000	1.00	4.17	100,000
March 14, 2013	50,000	0.44	4.45	16,667
April 7, 2013	50,000	0.44	4.52	16,667
July 10, 2013	300,000	0.44	4.78	100,000
August 12, 2013	2,235,000	0.20	4.87	-
	9,805,500	\$ 0.60		7,067,167

(d) The weighted average grant-date fair value of the stock options granted during 2008 and 2007 was \$0.22 and \$1.10, respectively.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	September 30,	
	2008	2007
Risk free interest rate	3.18%	4.12%
Expected volatility	105.44%	53.18%
Expected years of option life	5 years	5 years
Expected dividends	\$Nil	\$Nil

During 2008, under the fair-value method, \$396,879 (2007 - \$759,081) in stock-based compensation expense was recorded in the consolidated statements of operations for options granted to employees, of which \$69,832 (2007 - \$261,473) was allocated to exploration costs for options granted to employees directly involved in exploration activities.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**11. SHARE CAPITAL (Continued)**

(e) *Outstanding Warrants*

Warrants	Exercise Price	Expiry Date
235,000	\$ 0.50	March 20, 2009
1,010,000	0.50	March 31, 2009
1,245,000		

(f) *Normal Course Issuer Bid*

On January 31, 2007 the Company announced its intention to make a normal course issuer bid under which it would purchase up to 4,170,000 common shares of the Company. The normal course issuer bid commenced on February 5, 2007 and ended on January 31, 2008. All purchases were effected through the facilities of the TSX and the price that the Company paid was the market price of the shares at the time of acquisition.

From February 5, 2007 to September 30, 2007, the Company purchased an aggregate of 1,690,900 shares at market prices averaging \$1.99 per share for a total cost of \$3,366,541. From October 1, 2007 to September 30, 2008, a further 32,000 shares were purchased at market prices averaging \$1.34 per share for a total cost of \$42,910. All shares purchased by the Company have been cancelled.

**12. OTHER RELATED PARTY TRANSACTIONS**

The Company incurred the following expenses with companies related by way of officers in common and with a company with whom a director is associated. These costs are measured at exchange amounts agreed upon by the parties.

	September 30,	
	2008	2007
Legal	\$ 105,935	\$ 173,148
Exploration	6,146	3,177
Share issue costs	430,134	126,006
	\$ 542,215	\$ 302,331

As at September 30, 2008, accounts receivable included \$142,293 (2007 - \$156,363) and accounts payable included \$33,235 (2007 - \$2,704) which are due from/to companies related by way of a director or officers in common or with a company with whom an officer is associated. These amounts are unsecured and non-interest bearing. The accounts receivable amount of \$142,293 (2007 - \$156,363) is due from Peregrine Metals Ltd. and relates to shared office costs and salaries. This amount was received after September 30, 2008.

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**13. CASH FLOW INFORMATION**

(a) Net change in non-cash working capital items:

	Year Ended September 30,	
	2008	2007
Accounts receivable	\$ 1,779,189	\$ (430,181)
Prepaid expenses	1,296,011	(946,450)
Accounts payable and accrued liabilities	(5,782,143)	3,106,430
	<u>\$ (2,706,943)</u>	<u>\$ 1,729,799</u>

(b) Other information:

	Year Ended September 30,	
	2008	2007
Interest received	\$ 120,560	\$ 989,523
Interest paid	16	357

**14. SEGMENT DISCLOSURES**

The Company operates in one industry segment (Note 1). Mineral properties and other capital assets are located in Canada and all exploration expenditures have been incurred in Canada.

**15. COMMITMENTS AND CONTINGENCIES**

The Company has entered into operating lease agreements for the rental of premises and equipment. The minimum future annual rental payments under the leases are as follows:

	Years Ending September 30,
2009	216,103
2010	61,568
	<u>\$ 277,671</u>

**PEREGRINE DIAMONDS LTD.**  
**Notes to the Consolidated Financial Statements**  
**September 30, 2008 and 2007**

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**16. SUBSEQUENT EVENTS**

- (a) On November 24, 2008, BHP Diamonds elected to exercise its earn-in rights (Note 7) for the 9,800 square kilometre Chidliak property, Baffin Island, Nunavut, Canada. BHP Diamonds can earn a 51 percent interest in the Chidliak property by funding five times the exploration expenditures that have been incurred by the Company, over a period of a maximum of five years, with minimum annual expenditures of \$5 million. BHP Diamonds will have to incur a total of \$22.3 million in future exploration expenditures on the Chidliak property in order to earn a 51 percent interest, with a minimum commitment of \$8.9 million.
- (b) On November 26, 2008, the Company and Peregrine Metals Ltd. (“Metals”) announced that their respective Boards of Directors have mutually agreed to terminate discussions to effect a business combination between the two companies. On June 3, 2008, the Company and Metals announced that they had entered into a letter of intent for the purpose of effecting a business combination whereby the two companies would merge to form a multi-commodity resource company. Both companies formed Special Committees of independent directors to study various structures for a merged company and negotiate a merger ratio. The Company’s Special Committee cited recent positive developments at Peregrine’s Chidliak property on Baffin Island, including the earn-in arrangement with BHP Billiton announced on November 24, 2008, as the primary reason to terminate the merger discussions.

**PEREGRINE DIAMONDS LTD.**  
**Consolidated Schedule of Exploration Expenditures**  
**Years Ended September 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Salaries	\$ 1,169,247	\$ 2,155,719
Stock-based compensation	69,832	261,473
Fuels	308,849	3,218,510
Personal protective gear	1,906	11,554
Maps, photos, reproductions	16,938	10,434
Sampling	930,200	2,704,175
Drilling	2,152,800	24,642,978
Assaying	562,638	244,295
Camp costs	1,436,929	2,497,343
Rental, lease and charter	2,477,154	8,038,529
Environmental	32,299	316,014
Fees and licenses	110,711	69,349
Geological consultants	107,491	197,951
Geophysical consultants	1,250,521	1,042,476
Engineering consultants	178,355	711,860
Other consulting	396,799	340,696
Legal	1,844	4,101
Site and administration	2,483	52,820
Travel	476,202	540,791
Repairs and maintenance	29,427	37,851
Community liason	30,004	53,594
Communications	130,284	287,872
Reimbursed expenditures	(1,387,526)	(11,557,177)
	<b>\$ 10,485,387</b>	<b>\$ 35,883,208</b>