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# INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Peregrine Diamonds Ltd.**

We have audited the financial statements of Peregrine Diamonds Ltd., which comprise the balance sheets as at September 30, 2011 and 2010 and statements of operations, shareholders' equity and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial positions of the Company as at September 30, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Hay + Watson

Chartered Accountants
Vancouver, British Columbia
December 21, 2011

# PEREGRINE DIAMONDS LTD.

**Balance Sheets**

**As at September 30, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 12,091,592 | $ 5,701,310 |
| Accounts receivable | 1,646,731 | 1,568,110 |
| Prepaid expenses | 1,626,963 | 1,040,316 |
| | 15,365,286 | 8,309,735 |
| INVESTMENTS (Note 6) | 34,352 | 126,952 |
| MINERAL PROPERTIES (Note 7) | 1,189,406 | 2,242,015 |
| OTHER CAPITAL ASSETS (Note 9) | 437,671 | 363,301 |
| DEPOSITS ON PROPERTY AND EQUIPMENT | 93,354 | 93,354 |
| | $ 17,120,068 | $ 11,135,357 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 5,768,267 | $ 4,595,033 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 11) | 116,743,399 | 98,295,177 |
| Contributed surplus | 11,121,324 | 8,365,384 |
| Deficit | (116,445,882) | (100,145,797) |
| Other comprehensive income | (67,040) | 25,560 |
| | 11,351,801 | 6,540,325 |
| | $ 17,120,068 | $ 11,135,358 |

**NATURE OF OPERATIONS (Note 1)**
**COMMITMENTS AND CONTINGENCIES (Note 15)**
**SUBSEQUENT EVENTS (Note 16)**

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

APPROVED BY THE BOARD:

*"Myron Goldstein"*
Director

*"Gordon Keep"*
Director

## PEREGRINE DIAMONDS LTD.

**Statements of Operations**

**Years Ended September 30, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **EXPENSES** | | |
| Accounting and audit fees | $ 96,744 | $ 68,395 |
| Consulting | 116,835 | 147,295 |
| Depreciation | 153,800 | 113,928 |
| Filing fees | 88,913 | 117,944 |
| Legal | 164,795 | 335,591 |
| Insurance | 89,997 | 121,238 |
| Investor relations | 119,496 | 115,479 |
| Office and administration | 404,282 | 437,549 |
| Salaries and benefits | 1,084,321 | 969,335 |
| Travel | 92,520 | 118,195 |
| Stock-based compensation | 841,393 | 3,009,862 |
| Exploration (Schedule) | 14,340,516 | 6,673,325 |
| | 17,593,614 | 12,228,136 |
| **OTHER (INCOME)/EXPENSES** | | |
| Interest income | (175,173) | (17,760) |
| Mineral property write-downs (Note 7) | 1,105,466 | 413,009 |
| Other expenses | - | 28,854 |
| Foreign exchange | (893) | - |
| Management fees and other income | (722,772) | (962,867) |
| | 206,628 | (538,764) |
| Loss before income taxes | 17,800,242 | 11,689,372 |
| Future income tax recovery (Note 10) | (1,500,156) | (4,313) |
| **NET LOSS** | **$ 16,300,086** | **$ 11,685,059** |
| **BASIC AND DILUTED LOSS PER SHARE** | **$ (0.17)** | **$ (0.14)** |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | **94,757,278** | **85,492,517** |

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

**PEREGRINE DIAMONDS LTD.**

**Statements of Shareholders' Equity**

**Years Ended September 30, 2011 and 2010**

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Contributed Surplus | Deficit | Other Comprehensive Income (Loss) | Total |
| Balances, September 30, 2009 | 81,401,590 | $ 87,504,254 | $ 5,763,238 | $ (88,460,738) | $ (46,338) | $ 4,760,416 |
| Shares issued for cash: | | | | | | |
| Private offering, net of issue costs of $19,610 | 2,000,000 | 5,980,390 | - | - | - | 5,980,390 |
| Warrants exercised | 3,934,892 | 4,405,421 | (463,987) | - | - | 3,941,434 |
| Options exercised | 489,167 | 405,112 | (234,612) | - | - | 170,500 |
| Stock-based compensation | - | - | 3,300,745 | - | - | 3,300,745 |
| Investment fair value adjustment | - | - | - | - | 71,898 | 71,898 |
| Net loss | - | - | - | (11,685,059) | - | (11,685,059) |
| Balances, September 30, 2010 | 87,825,649 | 98,295,177 | 8,365,384 | (100,145,797) | 25,560 | 6,540,324 |
| Shares issued for cash: | | | | | | |
| Private offering, net of issue costs of $772,145 | 7,800,000 | 18,006,288 | 1,621,567 | - | - | 19,627,855 |
| Warrants exercised | 1,002,328 | 1,621,669 | (118,177) | - | - | 1,503,492 |
| Options exercised | 494,500 | 320,266 | (121,465) | - | - | 198,801 |
| Future income taxes related to expenditures renounced at December 31, 2010 | - | (1,500,000) | - | - | - | (1,500,000) |
| Stock-based compensation | - | - | 1,374,016 | - | - | 1,374,016 |
| Investment fair value adjustment | - | - | - | - | (92,600) | (92,600) |
| Net loss | - | - | - | (16,300,086) | - | (16,300,086) |
| Balances, September 30, 2011 | 97,122,477 | $ 116,743,399 | $ 11,121,324 | $ (116,445,882) | $ (67,040) | $ 11,351,801 |

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

# PEREGRINE DIAMONDS LTD.

**Statements of Cash Flows**

**Years Ended September 30, 2011 and 2010**

| | | |
|---|---|---|
| **OPERATING ACTIVITIES** | **2011** | **2010** |
| Net loss | $ (16,300,086) | $ (11,685,059) |
| Items not affecting use of cash | | |
| Depreciation | 167,143 | 113,928 |
| Stock-based compensation | 1,374,016 | 3,300,745 |
| Write-down of mineral property | 1,105,466 | 413,009 |
| Other loss/(income) | - | 31,432 |
| Future income tax recovery | (1,500,156) | (4,313) |
| | (15,153,617) | (7,830,258) |
| Changes in non-cash working capital items (Note 13) | 507,966 | 2,795,870 |
| | (14,645,651) | (5,034,388) |
| **INVESTING ACTIVITIES** | | |
| Proceeds from sale of investments | - | 44,635 |
| Proceeds from sale of other capital assets | - | 3,250 |
| Mineral properties | (52,857) | - |
| Purchase of other capital assets | (241,513) | (186,680) |
| Refund of deposits on mineral properties and equipment | - | 22,901 |
| | (294,370) | (115,894) |
| **FINANCING ACTIVITIES** | | |
| Shares issued for cash, net of share issue costs | 21,330,303 | 10,092,324 |
| **INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | 6,390,282 | 4,942,042 |
| **CASH AND CASH EQUIVALENTS** | | |
| **BEGINNING OF YEAR** | 5,701,310 | 759,268 |
| **CASH AND CASH EQUIVALENTS** | | |
| **END OF YEAR** | $ 12,091,592 | $ 5,701,310 |
| **CASH AND CASH EQUIVALENTS ARE COMPRISED OF:** | | |
| Cash in bank | $ 4,470,727 | $ 3,186,244 |
| Short-term deposits | 7,620,865 | 2,515,066 |
| | $ 12,091,592 | $ 5,701,310 |

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

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

## 1. NATURE OF OPERATIONS

Peregrine Diamonds Ltd. ("Peregrine"), (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, 2011 were directed towards the exploration of the Company's property interests located in Nunavut, 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, 2011 has a working capital balance of $9.6 million and an accumulated deficit of $116.5 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 financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in these financial statements are as follows:

*(a) 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.

Significant estimates used in the preparation of these financial statements include, among others, 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*(b) 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. Exchange gains and losses are included in operations.

*(c) Cash and Cash Equivalents*

The Company considers all highly liquid investments that are readily convertible to cash or with an original maturity of 90 days or less to be cash and cash equivalents.

*(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 premiums 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 permanent impairment are included in operations. All financial liabilities are carried at amortized cost.

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

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 maturities.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*(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 programmes 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.

The Company reviews the carrying values of its mineral properties whenever events or changes in circumstances indicate that 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 those activities.

*(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 | 1-3 years |
| Plant, equipment and buildings | 3-5 years |

The Company reviews the carrying values of its other capital assets whenever events or changes in circumstances indicate that 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. At September 30, 2011 and 2010, there were no such liabilities.

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

*(h) Income Recognition*

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

*(i) Comprehensive Income (Loss)*

Comprehensive income (loss) is the change in net assets arising from transactions and other events and circumstances from non-owner sources and comprises net income (loss) and other comprehensive income (loss). Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income (loss) 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 its investments.

*(j) Stock-based Compensation*

From time to time, the Company grants options to directors, officers and 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, officers 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 a corresponding reduction in share capital and a future tax liability equal to the renounced tax deductions multiplied by the tax rate. On renunciation for tax purposes of the exploration expenditures related to this consideration, the Company records the related future income tax liability as a credit to income.

*(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.

## 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 for this purpose to be 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 programmes, availability of financing and industry conditions. Annual and materially updated budgets are approved by the Board of Directors.

There are no external restrictions on the management of capital.

In order to maximize ongoing development efforts, the Company does not pay dividends. The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments with maturities of 90 days or less. When utilized, these instruments are selected with regard to the expected timing of expenditures for 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. Also, 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.

## 4. FINANCIAL RISK MANAGEMENT

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 on 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 and cash equivalents are held at large Canadian financial institutions. Accounts receivable consist mostly of refundable taxes due from the federal Government of Canada and expense recoveries receivable from BHP Billiton Diamonds Inc. ("BHP Billiton") (Note 7). Prepaid expenses and deposits 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 to be material. However, the Company closely monitors the market values of these investments in order to determine the most appropriate course of action.

## 5. RECENT ACCOUNTING PRONOUNCEMENTS

### Convergence with International Financial Reporting Standards

Canadian public companies will be required to prepare their financial statements in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), for fiscal years beginning on or after January 1, 2011. The Company will report its interim (commencing with the quarter ending December 31, 2011) and annual financial results during the year ending September 30, 2012 in accordance with IFRS. The Company will also provide comparative data for the year ended September 30, 2011 on an IFRS basis, including an opening balance sheet as at October 1, 2010.

IFRS are applied retrospectively, except in certain circumstances as allowed or required under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Accordingly, the Company will also provide a reconciliation of previously disclosed comparative period financial statements prepared in accordance with Canadian GAAP to IFRS.

The Company expects this transition to have an impact on its accounting policies, financial reporting and internal controls. Further details of the Company's IFRS transition plan are included in the Company's Management Discussion & Analysis for the year ended September 30, 2011.

### Accounting standards issued but not yet effective

During 2011 five new standards were issued effective for annual periods beginning on or after January 1, 2013.

*(a)* *IFRS 10 Consolidated Financial Statements*

IFRS 10 outlines the principles for the presentation and preparation of consolidated financial statements.

*(b)* *IFRS 11 Joint Arrangements*

IFRS 11 defines the two types of joint arrangements (joint operations and joint ventures) and outlines how to determine the type of joint arrangement entered into and the principles for accounting for each type of joint arrangement.

*(c)* *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 outlines the disclosures required in order to provide users of financial statements with the information necessary to evaluate an entity's interest in other entities, the corresponding risks related to those interests and the effects of those interests on the entity's financial position, financial performance and cash flows.

*(d)* *IFRS 13 Fair Value Measurement*

IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines the required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements.

## 5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

*(e) IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine*

IFRIC Interpretation 20 summarizes the method of accounting for waste removal costs incurred as a result of surface mining activity during the production phase of a mine.

**Accounting standards amended but not yet effective**

*(a) IAS 27 Separate Financial Statements*

IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled *IAS 27 Consolidated and Separate Financial Statements*.

*(b) IAS 28 Investments in Associates and Joint Ventures*

IAS 28 outlines the accounting treatment and corresponding application of the equity method of accounting in investments in associates and joint ventures. The previous standard was titled *IAS 28 Investments in Associates*.

The Company does not plan to early adopt these standards and is currently assessing the impact that these standards will have on the financial statements. IFRS 10, IFRS 11 and IAS 27 and IAS 28 cannot be early adopted on a stand-alone basis and may only be early adopted as a group along with IFRS 12. Early adoption must be disclosed.

IFRS 12 disclosure is encouraged prior to adoption of the standard. This early disclosure does not require the entity to apply IFRS 10, IFRS 11, IAS 27 or IAS 28. IFRS 13 may be early adopted on a stand-alone basis so long as this fact is disclosed and the standard is applied prospectively as at the beginning of the annual reporting period in which the standard is initially applied.

## 6. INVESTMENTS

| | September 30, 2011 | | | | September 30, 2010 | |
|---|---|---|---|---|---|---|
| | Equity Interest | Unadjusted Carrying Value | Adjustment to Fair Value | Adjusted Fair Value | Equity Interest | Fair Value |
| Shear Diamonds Ltd. | 0.33% | $ 97,081 | $ 62,729 | $ 34,352 | 0.35% | $ 126,952 |

During the year ended September 30, 2011, the Company made fair market value adjustments aggregating $92,600 (2010 - $71,898) on these investments, which it considers to be available for sale financial assets (Note 2(d)).

## 7. MINERAL PROPERTIES

| | Total | Chidliak | Nanuq & Nanuq North | Other Baffin Island Properties | Others |
|---|---|---|---|---|---|
| **Mineral Property Acquisition Costs** | | | | | |
| Balance, September 30, 2009 | $ 2,655,024 | $ - | $ 1,666,120 | $ - | $ 988,904 |
| Mineral property write-downs | (413,009) | - | - | - | (413,009) |
| Balance, September 30, 2010 | 2,242,015 | - | 1,666,120 | - | 575,895 |
| Mineral property acquisition costs | 52,857 | - | - | 52,857 | - |
| Mineral property write-downs | (1,105,466) | - | (1,105,466) | - | - |
| Balance, September 30, 2011 | $ 1,189,406 | $ - | $ 560,654 | $ 52,857 | $ 575,895 |
| **Cumulative Exploration Expenditures Written Off to Operations** | | | | | |
| Balance, September 30, 2009 | $ 83,083,259 | $ 3,983,465 | $ 7,581,041 | $ 4,839,481 | $ 66,679,272 |
| Expenditures for the year | 6,673,325 | 998,437 | 3,226,371 | 1,635,371 | 813,145 |
| Balance, September 30, 2010 | 89,756,584 | 4,981,902 | 10,807,412 | 6,474,852 | 67,492,417 |
| Expenditures for the year | 14,340,516 | 8,759,921 | 2,133,292 | 2,239,189 | 1,208,114 |
| Balance, September 30, 2011 | $ 104,097,100 | $ 13,741,823 | $ 12,940,704 | $ 8,714,041 | $ 68,700,531 |

### Nunavut

#### *Chidliak Property*

Chidliak was a joint venture between the Company (49%) and BHP Billiton (51%) (Notes 8 and 16(b)) until December 20, 2011. Chidliak is located 120 kilometres from Iqaluit, the capital of Nunavut, Canada and consists of 852 claims covering an area of approximately 858,000 hectares (8,580 square kilometres).

The Chidliak property was subject to an agreement between the Company and BHP Billiton whereby BHP Billiton could earn a 51% joint venture interest by making aggregate exploration expenditures on the property of $22.3 million over a five year period. During the month of September 2010, BHP Billiton completed their required aggregate expenditure requirements and earned a 51% interest in the Chidliak project. In December 2011, the Company agreed to purchase BHP Billiton's 51% interest in the Chidliak property for $9.0 million payable over three years and a 2% royalty on any future mineral production (Note 16(b)).

#### *Qilaq Property*

The Qilaq property consists of 33 prospecting permits covering approximately 449,000 hectares (4,490 square kilometres) which were acquired bordering Chidliak to the north, east and south.

#### *Cumberland Property*

The Cumberland property consists of 40 prospecting permits covering approximately 527,000 hectares (5,270 square kilometres) on the Cumberland Peninsula, Baffin Island. The Cumberland property has geologic characteristics that are considered by the Company to be similar to those at Qilaq and Chidliak. The centre of the Cumberland property is located approximately 200 kilometres north of Chidliak and east of the community of Pangnirtung.

**7. MINERAL PROPERTIES (Continued)**

***Nanuq Property***

The Nanuq property ("Nanuq") consists of 241 mineral claims covering approximately 235,000 hectares (2,350 square kilometres), located in Nunavut. The centre of the property is 170 km north of the town of Chesterfield Inlet and 225 km east-northeast of the town of Baker Lake.
In September 2011, the Company adjusted the carrying value of the Nanuq property to reflect the reduction in the size of the property through the net relinquishment of a number of mineral property claims. This adjustment was calculated on a pro-rata claims basis and resulted in a decrease in the carrying value of Nanuq from $1.4 million to $561,000.

***Nanuq North Property***

In 2005, the Company entered into an agreement with Indicator Minerals Inc. ('Indicator') and Hunter Exploration Group ('Hunter') on the Nanuq North property ("Nanuq North") which consists of 51 claims covering an area of 33,090 hectares immediately north of the Nanuq property. Under the terms of the agreement, an exploration joint venture was formed with Indicator as the operator and the Company and Indicator sharing the costs of exploration on a 50/50 basis. Hunter retains a 20% property interest carried through the completion of scoping study and a gross overriding royalty of 2% from a core group of 16 claims with an area of 13,864 hectares. Indicator and Peregrine each hold a 50% undivided interest in the remaining 19,226 hectares.

The Company has downgraded the priority of the Nanuq North property due to exploration results and has limited plans for further exploration activities. Accordingly, in September 2011 the Company wrote-off the carrying cost of Nanuq North in the amount of $275,000.

**<u>Northwest Territories</u>**

***WO Property***

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 approximately 15,000 hectares. By agreement dated April 21, 2004, the Company acquired a 38.475% interest in the WO Property from BHP Billiton. 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 has increased its interest to 71.93% through various funding initiatives and through the voluntary dilution of certain other joint venture partners (Note 8). There is an overriding royalty interest of 1.8% of the sales proceeds of diamonds produced on these claims. The WO property hosts the DO-27 diamond deposit which has a Canadian NI 43-101 compliant indicated mineral resource of 18.2 million carats in 19.5 million tonnes of kimberlite. The estimated grade of the indicated resource is 94 carats per hundred tonnes.

## 7. MINERAL PROPERTIES (continued)

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.

***Lac de Gras Properties***

The Lac de Gras property consists of 95 mineral claims covering approximately 87,000 hectares (870 square kilometres) located 300 kilometres northeast of Yellowknife. The Company owns a 65% joint venture interest in 41 of these claims; the remaining 54 claims are wholly-owned by the Company. In addition, these properties are subject to certain gross overriding royalties of between 2% and 4%. 50% of each of these royalties can be purchased by the Company for amounts ranging from $2.0 to $4.0 million.

***TW Property***

The Company acquired a 100% interest in 5 mineral exploration claims with an aggregate area of approximately 4,772 hectares located in the Northwest Territories known as the TW property.

In April 2006, the Company granted Viking Gold 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 was required to complete an airborne geophysical survey over the property by December 31, 2006, incur aggregate exploration expenditures of $1 million on the property by September 2011 and maintain all permits on the property in good standing for the duration of the agreement. In July, 2010, Viking gave notice to the Company that these work and expenditure commitments had been completed. The Company is currently awaiting a project update and analysis from Viking.

## 8. INVESTMENT IN JOINT VENTURES

### *WO Joint Venture*

The Company has a 71.93% interest in a joint venture formed to explore for diamonds at the WO property in the Northwest Territories. 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, 2011, the WO joint venture incurred expenditures of $53,739 (2010 - $102,000), of which $3,000 (2010 - $16,000) were financed from cash contributions from the other joint venture participants. The WO joint venture also owns $136,424 in property and equipment as at September 30, 2011. 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.

### *Chidliak Joint Venture*

The Company had a 49% interest in a joint venture formed to explore for diamonds at the Chidliak property on Baffin Island, Nunavut. The Company was appointed the operator of the Chidliak joint venture for the years 2010 and 2011. 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. In December 2011, the Company agreed to purchase BHP Billiton's 51% interest in the Chidliak property (Note 16(b)).

For the year ended September 30, 2011, the Chidliak joint venture incurred expenditures of $18.0 million (2010 - $14.7 million), of which $9.2 million (2010 - $13.7 million) were financed from cash contributions from the other joint venture participant. There are no contingent or other liabilities relating to the Company's interest in the Chidliak joint venture which have not been recorded in the Company's accounts. The following table provides summary financial information on the Company's share of the Chidliak joint venture included in these financial statements for the years ended September 30, 2011 and 2010:

## 8. INVESTMENT IN JOINT VENTURES (continued)

| | Year Ended September 30, 2011 | 2010 |
|---|---|---|
| Exploration expenditures and net loss | $ 8,759,921 | $ 2,027,393 |
| | | |
| Cash | $ 2,736,148 | $ - |
| Prepaid expenses | 717,085 | 152,701 |
| Property and equipment | 101,964 | - |
| | 3,555,197 | 152,701 |
| | | |
| Accounts payable | 3,503,591 | - |
| | | |
| Net investment in Chidliak Joint Venture | $ 51,606 | $ 152,701 |
| | | |
| Cash flow provided from (used in): | | |
| Operating activities | $ (5,807,371) | $ (2,180,094) |
| Investing activities | $ (115,307) | $ - |
| Financing activities | $ 8,658,826 | $ 2,180,094 |

## 9. OTHER CAPITAL ASSETS

| | September 30, 2011 | | | September 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Cost | Accumulated Depreciation | Net Book Value |
| Office equipment, furniture and fixtures | $ 865,403 | $ (672,049) | $ 193,354 | $ 714,908 | $ (551,240) | $ 163,668 |
| Plant and equipment | 363,332 | (204,019) | 159,313 | 261,972 | (147,343) | 114,629 |
| Buildings | 158,443 | (73,439) | 85,004 | 158,443 | (73,439) | 85,004 |
| | $ 1,387,178 | $ (949,507) | $ 437,671 | $ 1,135,323 | $ (772,022) | $ 363,301 |

## 10. INCOME TAXES

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

| | September 30, 2011 | September 30, 2010 |
|---|---|---|
| Future income tax assets | | |
| Mineral properties | $ 290,820 | $ 14,454 |
| Investments | 8,468 | - |
| Other capital assets | 277,389 | 232,394 |
| Exploration expense pools | 18,770,820 | 17,223,065 |
| Tax loss carry forwards | 3,098,549 | 3,479,356 |
| Total future income tax assets | 22,446,046 | 20,949,269 |
| Future income tax liability | - | (4,311) |
| Valuation allowance | (22,446,046) | (20,944,958) |
| Net future income tax assets | $ - | $ - |

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

| | Year Ended September 30, 2011 | Year Ended September 30, 2010 |
|---|---|---|
| Loss before income taxes | $ 17,800,242 | $ 11,689,372 |
| Combined Canadian federal and provincial statutory tax rates | 26.5% | 28.5% |
| Recovery of income taxes based on combined statutory tax rates | $ 4,717,064 | $ 3,331,471 |
| Deduct: | | |
| Tax effect of current year's loss not recognized | (179,285) | (410,213) |
| Net effect of items that are not taxable or deductible | (4,537,779) | (1,102,262) |
| Tax effect of other temporary differences not recognized | - | (1,818,996) |
| Add: | | |
| Future income tax recovery on realized losses on investments | - | 4,313 |
| Future income tax recovery realized on renounciation of flow-through exploration expenditures | 1,500,156 | - |
| Future income tax recovery | $ 1,500,156 | $ 4,313 |

At September 30, 2011, the Company has unrecognized non-capital losses for income tax purposes of approximately $12.4 million (2010 - $12.5 million) that may be used to offset future taxable income. These losses, if not utilized, will expire during the period 2014 to 2031. In addition to these tax losses, the Company has resource related expenditures of approximately $77.5 million (2010 - $71.3 million), net of renounced exploration expenditures, which can be used to offset future Canadian taxable income and can be carried forward indefinitely.

## 11. SHARE CAPITAL

*(a)* The Company's authorized capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

*(b)* 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 155,000 options granted in December 2010 and January 2011 which were outstanding at September 30, 2011 and that had not yet fully vested, the first stage is six months after the date of grant and the remainder in two equal semi-annual stages on the twelve-month and eighteen-month anniversaries of the date of the grant. A total of 45,000 share options granted in January 2011 were cancelled prior to vesting. A total of 45,000 share options granted in December 2010 and March 2011 were fully vested at September 2011. Options are exercisable for periods of either five or ten years after the date of grant. The share options are exercisable at the prices described below.

A summary of the status of the Company's stock options outstanding as at September 30, 2011 and 2010 and changes during the periods ended on those dates is presented below:

| | Year September 30, 2011 | | Year Ended September 30, 2010 | |
|---|---|---|---|---|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of period | 15,942,833 | $ 0.77 | 15,949,500 | $ 0.72 |
| Granted | 245,000 | 2.55 | 510,000 | 2.26 |
| Exercised | (494,500) | 0.40 | (489,167) | 0.35 |
| Forfeited/expired | (45,000) | 2.50 | (27,500) | 4.00 |
| Outstanding at end of period | 15,648,333 | 0.80 | 15,942,833 | 0.77 |
| Options exercisable at end of period | 15,545,000 | 0.80 | 13,290,490 | 0.70 |
| Weighted average remaining contractual life | 6.4 years | | 7.2 years | |

Subsequent to September 30, 2011, 70,000 share options were granted at a price of $1.20 per share and a total of 44,500 share options were exercised at prices ranging from $0.20 to $0.44 per share.

**11. SHARE CAPITAL (Continued)**

| Weighted Average Exercise Price Range | Outstanding Options | Weighted Average Remaining Contractural Life (Years) | Exercisable Options |
|---|---|---|---|
| \$0.20 to \$0.25 | 1,925,500 | 6.80 | 1,925,500 |
| \$0.26 to \$0.50 | 3,067,500 | 4.60 | 3,067,500 |
| \$0.51 to \$0.75 | 5,018,333 | 7.50 | 5,018,333 |
| \$0.76 to \$1.00 | 3,025,000 | 4.50 | 3,025,000 |
| \$1.75 to \$2.00 | 2,032,000 | 8.00 | 2,032,000 |
| \$2.01 to \$2.63 | 580,000 | 8.10 | 476,667 |
| \$0.80 | 15,648,333 | | 15,545,000 |

The weighted average grant-date fair value of the stock options granted during 2011 and 2010 was \$1.58 and \$1.80, respectively.

During 2011, using the Black-Scholes option pricing model and the following assumptions, \$1,374,016 (2010 - \$3,300,745) in stock-based compensation expense was recorded in the statements of operations for options granted to employees, of which \$532,622 (2010 - \$290,883) was allocated to exploration costs for options granted to employees directly involved in exploration activities.

| | Year Ended September 30, 2011 | Year Ended September 30, 2010 |
|---|---|---|
| Risk free interest rate | 1.69% | 1.73% |
| Expected volatility | 108% | 122% |
| Expected years of option life | 2.6 | 4.7 |
| Expected dividends | \$Nil | \$Nil |

*(c) Outstanding Warrants*

| Issue Date | Warrants | Exercise Price | Expiry Date |
|---|---|---|---|
| November 3, 2010 | 2,400,000 | \$3.00 | November 3, 2011 |

The fair value of the warrants issued on November 3, 2010 was estimated using the Black-Scholes option pricing model and the following assumptions: annualized volatility of 78.6%, risk free interest rate of 1.4%, expected warrant term of 1 year and an expected dividend rate of Nil.

Subsequent to September 30, 2011, these 2,400,000 warrants expired unexercised.

## 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, 2011 | | September 30, 2010 | |
|---|---|---|---|---|
| Legal | $ | 101,797 | $ | 82,373 |
| Exploration | | - | | 42,379 |
| Share issue costs | | 684,045 | | 19,610 |
| | $ | 785,842 | $ | 144,361 |

As at September 30, 2011, accounts receivable included $8,000 (2010 - $205,576) which was due from Peregrine Metals Ltd. (a company formerly related by way of directors and officers in common) and related to shared office costs and salaries. Accounts payable included $28,049 (2010 - $12,730) which is due 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.

## 13. CASH FLOW INFORMATION

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

| | Year Ended September 30, 2011 | | Year Ended September 30, 2010 | |
|---|---|---|---|---|
| Accounts receivable | $ | (78,621) | $ | 1,693,356 |
| Prepaid expenses | | (586,646) | | (320,194) |
| Accounts payable and accrued liabilities | | 1,174,309 | | 1,421,766 |
| Unrealized foreign exchange gains/(losses) | | (1,075) | | 942 |
| | $ | 507,966 | $ | 2,795,870 |

*(b)* Supplementary information regarding other non-cash transactions:

| | Year Ended September 30, 2011 | | Year Ended September 30, 2010 | |
|---|---|---|---|---|
| Shares received for payment of account receivable | $ | - | $ | 123,080 |
| Transfer from contributed surplus to share capital on exercise of stock options and warrants | | (239,642) | | (698,599) |
| Transfer from share capital for fair value of warrants issued on private placement | | 1,621,567 | | - |

*(c)* Other information:

| | Year Ended September 30, 2011 | | Year Ended September 30, 2010 | |
|---|---|---|---|---|
| Interest received | $ | 184,067 | $ | 17,760 |

## 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, | | |
|---|---|---|
| 2012 | $ | 289,143 |
| 2013 | $ | 196,006 |

## 16. SUBSEQUENT EVENTS

*(a)* On December 6, 2011, the Company completed a rights offering for aggregate proceeds of $6.1 million. A total of 7,156,662 units ("Unit") were issued. Each Unit is comprised of one common share and one half of a common share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one common share for a term of two years following the expiry date of the rights offering at a price of $2.00.

*(b)* On December 20, 2011 the Company entered into a binding agreement with BHP Billiton to purchase BHP Billiton's 51 percent participating interest in the Chidliak property. The purchase gives the Company a 100 percent ownership of Chidliak. Under the terms of the agreement, the Company will pay a total of $9.0 million over a period of three years, and grant BHP Billiton a two percent royalty on any future mineral production from Chidliak. The Company has the right to match any offer by a third party to purchase any of the royalty, should BHP Billiton decide to sell. In addition, as part of the transaction, the Company has acquired BHP Billiton's Canadian regional diamond exploration database and BHP Billiton has agreed to extinguish the Company's royalty obligations and BHP Billiton's diamond marketing rights on certain properties.

Terms of the Chidliak property purchase agreement include:

- **100 Percent Ownership.** BHP Billiton will transfer its entire 51 percent participating interest in Chidliak to the Company, giving the Company 100 percent ownership of the project complete with 100 percent of the diamond marketing rights.
- **Closing.** The Company and BHP Billiton agree to close the transaction on or before January 31, 2012.
- **Payments.** $9.0 million as follows: $1.5 million at closing and $2.5 million on each of January 31, 2013, January 31, 2014 and January 31, 2015.
- **Royalty**. The Company will grant BHP Billiton a two percent royalty on mineral production from Chidliak. The Company has the right to match any offer by a third party to purchase any of the royalty, should BHP Billiton decide to sell.

**16. SUBSEQUENT EVENTS (Continued)**

- **Regional diamond exploration database**. The Company will acquire exploration data and archived heavy mineral concentrates for sediment samples that were collected by BHP Billiton during regional diamond exploration programs in Canada.
- **Termination of Royalties and Diamond Marketing Rights.** The following obligations of the Company to BHP Billiton will be terminated:
    - 2 percent royalty and certain diamond marketing rights on 57% of claims on the Nanuq property
    - 2 percent royalty on the TW property
    - 0.7 percent royalty on certain portions of the WO and Lac de Gras properties
    - 1 percent royalty and certain diamond marketing rights on the Pellatt Lake property

**PEREGRINE DIAMONDS LTD.**
**Schedule of Exploration Expenditures**
**Years Ended September 30, 2011 and 2010**

| | **2011** | 2010 |
|---|---|---|
| Salaries | **$ 1,625,994** | $ 730,033 |
| Stock-based compensation | **532,622** | 290,883 |
| Fuels | **524,592** | 185,431 |
| Sampling | **11,425** | 65,855 |
| Drilling | **1,757,218** | 438,251 |
| Assaying | **804,979** | 1,250,954 |
| Camp costs | **1,694,264** | 307,479 |
| Rental, lease and charter | **4,666,680** | 2,547,534 |
| Environmental | **81,522** | 7,727 |
| Fees and licenses | **88,955** | 81,109 |
| Consulting | **236,589** | 173,312 |
| Geological consultants | **314,927** | 140,717 |
| Geophysical consultants | **1,171,215** | 67,545 |
| Engineering consultants | **63,527** | 11,087 |
| Site administration | **109,412** | 101,603 |
| Travel | **638,405** | 231,735 |
| Community liason | **66,489** | 30,687 |
| Depreciation | **13,343** | - |
| Other income | **(50,000)** | - |
| Interest income | **(8,894)** | - |
| Repayment to (recovery from) joint venture partners | **(2,749)** | 11,383 |
| | **$ 14,340,516** | $ 6,673,325 |