

KIVALLIQ ENERGY CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Canadian Dollars

AUDITORS' REPORT

To the Shareholders of
Kivalliq Energy Corp.

We have audited the balance sheets of Kivalliq Energy Corp. as at September 30, 2008 and 2007 and the statements of loss and deficit and comprehensive loss 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 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 ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

January 13, 2009



Kivalliq Energy Corporation

(An Exploration Stage Company)

Balance Sheets

As at September 30

Canadian Dollars

For periods prior to February 26, 2008, the financial statements of Kivalliq Energy Corp., including the results of operations and cash flow, have been prepared on a carve-out basis from Kaminak Gold Corporation as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if Kivalliq Energy Corp. had operated as a stand-alone entity for those periods.

ASSETS	2008		2007	
Current				
Cash	\$	936,350	\$	-
Marketable securities (Note 5)		180,000		-
GST receivable		130,783		-
Prepaid expenses		171,322		-
		1,418,455		-
Equipment (Note 6)		54,342		-
Resource Property Costs (Note 7) – Schedule		2,514,291		229,026
	\$	3,987,088	\$	229,026
LIABILITIES				
Current				
Accounts payable and accrued liabilities	\$	173,313	\$	-
SHAREHOLDERS' EQUITY				
Share Capital (Note 8)		3,600,252		-
Contributed Surplus (Note 9)		635,728		398,075
Accumulated Other Comprehensive Income		60,000		-
Deficit		(482,205)		(169,049)
		3,813,775		229,026
	\$	3,987,088	\$	229,026

Nature of Operations (Note 1)

Subsequent Events (Note 15)

ON BEHALF OF THE BOARD:

“John Robins”, President & CEO _____, Director

“James Paterson” _____, Director

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statements of Loss and Deficit and Comprehensive Loss
For the Years Ended September 30

Canadian Dollars

For periods prior to February 26, 2008, the financial statements of Kivalliq Energy Corp., including the results of operations and cash flow, have been prepared on a carve-out basis from Kaminak Gold Corporation as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if Kivalliq Energy Corp. had operated as a stand-alone entity for those periods.

	2008	2007
Expenses		
Amortization	\$ 6,111	\$ 402
Bank charges and interest	3,352	347
Consulting	99,915	16,675
Investor relations	30,731	11,662
Listing and filing fees	33,794	831
Office and sundry	14,012	4,807
Professional fees	46,164	5,759
Stock-based compensation	167,886	72,245
Transfer agent fees	14,208	1,599
Travel and conference	26,557	9,486
Loss before the undernoted	(442,730)	(123,813)
Other Income		
Gain on optioning of resource property	119,493	-
Interest	8,192	-
Gain on foreign exchange	1,889	-
Net Loss For The Year	(313,156)	(123,813)
Deficit - Beginning of Year	(169,049)	(45,236)
Deficit – End of Year	\$ (482,205)	\$ (169,049)
Net Loss For The Year	\$ (313,156)	\$ (123,813)
Changes in fair value of investments	60,000	-
Total Comprehensive Loss	\$ (253,156)	\$ (123,813)
Basic and Diluted Loss per Share	\$ (0.02)	N/A
Weighted Average Number of Shares Outstanding	14,001,403	N/A

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statement of Cash Flows
For the Years Ended September 30

Canadian Dollars

For periods prior to February 26, 2008, the financial statements of Kivalliq Energy Corp., including the results of operations and cash flow, have been prepared on a carve-out basis from Kaminak Gold Corporation as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if Kivalliq Energy Corp. had operated as a stand-alone entity for those periods.

	2008	2007
Cash Flows from Operating Activities		
Net loss for the year	\$ (313,156)	\$ (123,813)
Items not affected by cash:		
Gain on optioning of resource property	(119,493)	-
Stock-based compensation	167,886	
Amortization	6,111	402
Change in non-cash working capital:		
GST receivable	(130,783)	-
Prepaid expenses	(171,322)	
Accounts payable and accrued liabilities	153,517	-
	(407,240)	(123,411)
Cash Flows from Investing Activities		
Resource property costs	(2,156,579)	(70,367)
Equipment	(60,453)	-
	(2,217,032)	(70,367)
Cash Flows from Financing Activities		
Issuance of share capital, net	3,513,747	-
Funding by Kaminak Gold Corporation	46,875	193,778
	3,560,622	193,778
Net Increase in Cash	936,350	-
Cash - Beginning of year	-	-
Cash - End of Year	\$ 936,350	\$ -

Supplemental Schedule of Non-Cash Investing and Financing Activities

Accounts payables included in resource property costs	\$ 19,796	\$ -
Issuance of shares for property acquisitions (Note 2)	\$ 189,761	\$ -
Issuance of warrants for property acquisitions (Note 2)	\$ 148,662	\$ -
Fair value of agents warrants	\$ 17,695	\$ -
Reallocation of contributed surplus on exercise of warrants	\$ 56,072	\$ -
Acquisition of resource property as a result of the spin out (Note 2)	\$ 229,026	\$ -
Marketable securities received as option payments	\$ 120,000	\$ -
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

Kivalliq Energy Corporation
(An Exploration Stage Company)
Schedule of Resource Property Costs
For the Years Ended September 30

Schedule

Canadian Dollars

For periods prior to February 26, 2008, the financial statements of Kivalliq Energy Corp., including the results of operations and cash flow, have been prepared on a carve-out basis from Kaminak Gold Corporation as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if Kivalliq Energy Corp. had operated as a stand-alone entity for those periods.

	2008		2007	
	Acquisition Costs	Deferred Exploration Costs	Total	
Mineral Interests				
<i>Angilak, Nunavut</i>				
Acquisition costs – cash	\$ 42,500	\$ -	\$ 42,500	\$ 7,500
Acquisition costs – shares and warrants	27,002	-	27,002	-
Claim maintenance	35,333	-	35,333	-
Recording and staking	23,401	-	23,401	109,647
Assays	-	541	541	1,093
Field and supplies	-	1,423,604	1,423,604	28,546
Geological consulting	-	302,024	302,024	17,516
Travel and accommodation	-	430,646	430,646	42,766
	128,236	2,156,815	2,285,051	207,068
<i>Baker Lake, Nunavut</i>				
Claim maintenance	137	-	137	-
Geological consulting	-	370	370	-
Option receipt – shares	(137)	(370)	(507)	-
	-	-	-	-
<i>Washburn, Nunavut</i>				
Recording and staking	-	-	-	19,788
Claim maintenance	34	-	34	200
Geological consulting	-	180	180	1,970
	34	180	214	21,958
Resource Property Costs for the Year	128,270	2,156,995	2,285,265	229,026
Balance, Beginning of the Year	137,135	91,891	229,026	-
Balance as at September 30,	\$ 265,405	\$ 2,248,886	\$ 2,514,291	\$ 229,026

- See Accompanying Notes -

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2008
Canadian Dollars

1. Nature of Operations

Kivalliq Energy Corporation (“Kivalliq” or “the Company”) was incorporated as a wholly owned subsidiary of Kaminak Gold Corporation (“Kaminak”) on February 13, 2008 as 0816479 BC Ltd. under British Columbia’s Company Act. Effective February 20, 2008, 0816479 BC Ltd. changed its name to Kivalliq Energy Corp. The Company is an exploration stage company focusing on the acquisition, exploration and development of resource properties.

The Company became a reporting issuer in Alberta and British Columbia on July 4, 2008 by virtue of a reorganization transaction involving the exchange of securities between Kaminak, the Company and the shareholders of Kaminak. The reorganization transaction involved the acquisition from Kaminak of a 100% interest in Kaminak’s Uranium properties (Angilak, Baker Lake and Washburn). On July 7, 2008, after completion of its private placements, the Company’s shares became publicly trading on the TSX Venture Exchange under the symbol “KIV”.

2. Spin Out Transaction

In February 2008, Kaminak completed a transfer of its Uranium properties to Kivalliq in exchange for 3,646,752 units of Kivalliq (“Spin Out”). In addition, in July 2008, Kivalliq issued an additional 14,587,009 units to Kaminak. Each unit consisted of one common share and one half of one share purchase warrant which allows the holder to purchase one additional common share of Kivalliq at a price of \$0.25 per share, exercisable for a period of 30 days from the date Kivalliq’s shares are approved for trading on the TSX Venture Exchange (“TSX:V”) (the shares were approved for trading on July 4, 2008 and on July 28, 2008, the expiration date on the warrants was extended from August 4, 2008 to September 4, 2008). Kaminak then distributed 80% of these to the existing Kaminak shareholders pursuant to a corporate restructuring transaction (“Plan of Arrangement”). This resulted in each shareholder of Kaminak receiving 0.4 of a common share in Kivalliq and one quarter of one share purchase warrant for each outstanding common share of Kaminak held.

As part of the property transaction with Nunavut Tunngavik Inc. (“NTI”), (Note 7), the Company agreed to issue to NTI 5% of the total number of warrants issued on the spin out, a total of 479,836.

The Company also completed a non-brokered private placement of 6,400,000 Special Warrants, convertible to common shares of the Company upon Kivalliq obtaining its listing on the TSX:V, at a price of \$0.25 per Special Warrant for gross proceeds of \$1,600,000 in June 2008. These Special Warrants were converted to Kivalliq common shares on July 4, 2008, once the Company had obtained its approval for listing on the TSX:V.

The carrying value of the assets and liabilities transferred pursuant to the Plan of Arrangement was as follows:

	February 26, 2008	September 30, 2007
Resource property costs	\$ 311,421	\$ 229,026

Shareholders’ equity has been recorded as follows:

	February 26, 2008	September 30, 2007
Share Capital	\$ 176,536	\$ -
Contributed Surplus	357,836	398,075
Deficit	(222,951)	(169,049)
	\$ 311,421	\$ 229,026

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2008
Canadian Dollars

2. Spin Out Transaction – Continued

The Company's September 30, 2008 balance sheet includes the historic values that were transferred from Kaminak in February 2008. The 2007 comparative balances are the values that would have been transferred as of that date. The Company's Statement of Loss and Deficit for the year ended September 30, 2007 is the result of a "carve-out" of an allocation of Kaminak's expenses for those years. The allocation of Kaminak's general and administrative expenses was calculated on the basis of the ratio of costs deferred by Kaminak on the uranium mineral properties in each year presented as compared to the costs deferred on all mineral properties in each of these years.

3. Significant Accounting Policies

a) **Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) **Equipment**

The Company provides for amortization on its equipment at an annual rate of 20% on the declining balance method. One-half of the rate is taken in the year of acquisition.

c) **Comprehensive Income**

Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net loss until realized.

d) **Section 1535 – Capital Disclosures**

The Company adopted CICA Section 1535, "Capital Disclosures". This section requires the Company to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. The additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and procedures for managing capital.

The impact of adopting this section is disclosed in Note 12.

e) **Section 3862 and 3863 – Financial Instruments Disclosures and Presentation**

The Company adopted CICA Section 3862 and 3863, "Financial Instruments Disclosures and Presentation". These sections require disclosures of both qualitative and quantitative information that enables users of the financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed.

The impact of adopting these sections is disclosed in Note 11.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2008
Canadian Dollars

3. Significant Accounting Policies – Continued

f) Resource Property Costs

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain reserves that are economically recoverable.

Resource exploration and development costs are capitalized on an individual area of interest basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the reserves, while costs for the prospects abandoned are written off.

The recoverability of the amount capitalized for the undeveloped resource properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

g) Asset Retirement Obligations

The Company recognizes the fair value of legal obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost is recognized at fair value when a reasonable estimate of fair value can be estimated, in the year in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. No asset retirement costs have been recognized for the years presented as none of the Company's properties are estimated to require any remediation or other expenditures upon their retirement.

h) Income Taxes

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred or future income taxes for a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

i) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2008
Canadian Dollars

3. Significant Accounting Policies – Continued

j) Stock-Based Compensation

All stock-based awards are measured and recognized using a fair value based method. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with the offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

k) Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by application of the treasury stock method. The treasury stock method assumes that the options and/or warrants are exercised at the beginning of the year (or issue date if later) and the proceeds are used to repurchase outstanding shares of common stock.

l) Flow-Through Shares

The Company accounts for flow-through shares using the recommendations of the Emerging Issues Committee EIC-146. Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If the Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

m) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. In particular, resource property costs may be affected. Actual results could differ from those estimates.

3. Significant Accounting Policies – Continued

n) Impairment of Long-lived Assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

o) Financial Instruments

The Company follows the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) under CICA Handbook Section 1530 “Comprehensive Income” (“Section 1530”), Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement” (“Section 3855”), Section 3861 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”. These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company has classified its cash as held-for-trading. Marketable securities are classified as available-for-sale. GST receivable is classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost. The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has maintained its policy not to use hedge accounting.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

Kivalliq Energy Corporation
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Notes to Financial Statements
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4. Future Accounting and Reporting Changes

a) **International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

b) **Goodwill and Intangible Assets**

In February 2008, the AcSB issued Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace Section 3062, “Goodwill and Intangible Assets” and amended Section 1000, “Financial Statement Concepts” clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. The adoption of this new section is not expected to have a material impact on the Company’s financial position.

5. Marketable Securities

	September 30, 2008		September 30, 2007	
	Market Value	Cost	Market Value	Cost
Common shares in public company received as resource property payment, representing less than 5% interest in the company	\$ 180,000	\$ 120,000	\$ -	\$ -

6. Equipment

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value September 30, 2008	Net Book Value September 30, 2007
Field equipment	\$ 60,380	\$ 6,038	\$ 54,342	\$ -

Amortization expense of \$6,111, includes \$73 which relates to the allocation of expenses from Kaminak, as disclosed in Note 2.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2008
Canadian Dollars

7. Resource Property Costs:

Details are as follows:

	Acquisition Costs	Exploration Costs	Cumulative as at September 30, 2008	Cumulative as at September 30, 2007
Angilak, Nunavut	\$ 245,383	\$ 2,246,736	\$ 2,492,119	\$ 207,068
Baker Lake, Nunavut	-	-	-	-
Washburn, Nunavut	20,022	2,150	22,172	21,958
	\$ 265,405	\$ 2,248,886	\$ 2,514,291	\$ 229,026

General

The Company acquired from Kaminak, a related party, through the Spin Out Transaction (Note 2) Kaminak's Uranium Properties: the Angilak Property, the Baker Lake Property, and the Washburn Property.

Angilak, Nunavut

Angilak is a combination of two properties, located on Inuit Owned Lands and Federal Crown land.

Kaminak signed an Exploration Agreement (EA) with NTI whereby Kaminak was granted a 100% interest in the minerals within privately owned Inuit Owned Lands. This parcel is located directly adjacent to Kaminak's "Angilak (formerly Yathkyed) IOCG Project" which is comprised of staked claims located on Federal Crown land.

In order to keep the property in good standing, Kivalliq will agree to complete the following:

- Kivalliq will issue NTI 1,000,000 common shares from treasury staged over 36 months beginning only after final TSX-V approval for the spin-out transaction. On July 4, 2008, 250,000 Kivalliq shares were issued.
- Upon completion of a feasibility study on any portion of the property, NTI has the option of taking either a 25% participating interest or a 7.5% net profits royalty in the specific area subject to the feasibility study. These terms will include any feasibility study on Kivalliq's adjacent Yathkyed property.

Upon completion of a National Instrument 43-101 compliant report that outlines a measured resource of at least 12 million pounds of uranium, Kivalliq will pay NTI a cash sum of \$1,000,000.

As a consequence of the land claims settlement, the property is not subject to royalty obligations to the Government of Canada, but instead is subject to an underlying 12% net profits royalty payable on all minerals to NTI. During periods of positive operating revenue, gross uranium revenue shall be calculated as 130% of the value of the product.

- Starting December 31, 2008, Kivalliq will pay annual advanced royalty payments to NTI in the sum of \$50,000 annually.

Kivalliq Energy Corporation
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Notes to Financial Statements
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Canadian Dollars

7. Resource Property Costs: - Continued

Baker Lake (Uranium), Nunavut:

On July 14, 2008, Kivalliq signed an amending agreement with Pacific Ridge Exploration Ltd. ("Pacific Ridge"), whereby, Pacific Ridge was to have acquired a 100% interest in the Baker Lake Uranium Project located in the Kivalliq District of central Nunavut (subject to Kivalliq's back-in right) upon the signing of a joint venture agreement between Pacific Ridge and Aurora Energy Resources Inc. ("Aurora") and the issuance to Kivalliq of 2,000,000 common shares of Pacific Ridge (received).

Kivalliq is entitled to elect to earn back a 20% interest (the "Back-In Right") by paying Pacific Ridge within 90 days of the delivery by Pacific Ridge to Kivalliq of the Pre-Feasibility study an amount equal to 40% of the expenditures incurred by Pacific Ridge on programs and the Pre-Feasibility Study.

Hunter Exploration Group has a 2% Net Smelter Return interest, Shear Minerals Ltd. has a 5% Net Profits Interest and Stornoway Diamond Corporation has a 3.5% Net Profits Interest. The agreement pertains to all commodities other than diamonds.

Washburn, Nunavut

The Washburn Uranium Property is located on Victoria Island, Nunavut.

8. Share Capital

a) Details as follows:

	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited number of common voting shares without par value		
Issued:		
Issued on incorporation	1	\$ 1
Issued for Spin out (Note 2)	18,233,761	176,536
Issued for cash – Flow-through shares	4,000,000	1,440,672
Issued for resource property (Note 7)	250,000	13,225
Issued for cash – special warrants shares (Note 2)	6,400,000	1,600,000
Issued for cash – warrants exercised	1,894,982	473,746
Transfer from contributed surplus – exercise of warrants (Note 8)	-	56,072
Share issuance costs	-	(160,000)
Balance – September 30, 2008	30,778,744	\$ 3,600,252

Kivalliq Energy Corporation
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8. Share Capital - Continued

b) Private Placements:

The Company completed a brokered private placement of 4,000,000 flow-through units at a price of \$0.40 per unit for gross proceeds of \$1,600,000. Each Unit consists of one flow-through common share of Kivalliq and one non-flow-through common share purchase warrant, each whole warrant being exercisable to purchase one common share of Kivalliq at a price of \$0.50 for one year following the closing and \$0.60 in the second year. The agent received a commission equal to 10% of the gross proceeds of the offering, and received 400,000 agent's warrants. Each agent's warrant entitles the holder to acquire one common share at a price of \$0.50 to June 9, 2009 and \$0.60 to June 9, 2010. In accordance with the terms of the private placement and certain provisions of the Income Tax Act (Canada), the Company will renounce for income tax purposes, exploration expenditures of \$1,600,000 to subscribers of the flow through common shares in this private placement, for which the Company will have to incur eligible expenditures by December 31, 2008. At September 30, 2008 the Company had spent all of the flow-through funds raised during the year.

On July 4, 2008, the Company completed the conversion of its non-brokered private placement of 6,400,000 Kivalliq Special Warrants. Each special warrant was converted to a Kivalliq common share upon Kivalliq obtaining its listing on the TSX Venture Exchange ("TSX:V"), at a price of \$0.25 for gross proceeds of \$1,600,000. Each special warrant would have been exchangeable for common shares of Kaminak had the listing not been approved by December 31, 2008.

c) Warrants:

Details as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2006 and 2007	-	-
Issued	20,396,716	\$0.30
Exercised	(8,294,982)	\$0.25
Expired without exercise	(7,701,734)	\$0.25
Outstanding warrants, September 30, 2008	4,400,000	\$0.50

At September 30, 2008, warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life in Years
May 14, 2010 ⁽¹⁾	\$0.50/\$0.60	900,000	1.62
June 9, 2010 ⁽²⁾	\$0.50/\$0.60	3,100,000	1.69
June 9, 2010 ⁽³⁾	\$0.50/\$0.60	400,000	1.69
Weighted average of exercise price	\$0.50	4,400,000	1.68

¹ exercisable at \$0.50 to May 14, 2009 and \$0.60 to May 14, 2010

² exercisable at \$0.50 to June 9, 2009 and \$0.60 to June 9, 2010

³ Agents warrants

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8. Share Capital - Continued

c) Warrants: - *Continued*

The fair value of the warrants issued was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions used for the warrants granted to September 30, 2008:

Risk-free interest rate	3.46%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected option life in years	0.63 years

d) Stock Options

Details as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, September 30, 2006 and 2007	-	-
Issued	1,059,200	\$0.27
Outstanding options, September 30, 2008	1,059,200	\$0.27

Expiry Date	Weighted Average Exercise Price	Issued Number of Options	Exercisable Number of Options	Weighted Average Remaining Contractual Life in Years
January 17, 2011	\$0.25	663,200	663,200	2.30
April 7, 2011	\$0.25	20,000	20,000	2.52
April 25, 2011	\$0.29	20,000	20,000	2.57
July 21, 2011	\$0.25	166,000	166,000	2.81
December 7, 2011	\$0.25	40,000	40,000	3.19
April 2, 2012	\$0.36	96,000	96,000	3.51
June 18, 2012	\$0.36	54,000	54,000	3.72
Weighted average of exercise price	\$0.27	1,059,200	1,059,200	2.60

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8. Share Capital - Continued

d) Stock Options - Continued

During the year ended September 30, 2008, the Company granted options to acquire 1,059,200 common shares with a weighted average fair value of \$0.15 per share, which fully vested during the year, resulting in stock-based compensation expense under the Black-Sholes option pricing model of \$160,859. In addition, the Company was allocated stock-based compensation of \$7,027 from Kaminak as a result of the spin out (Note 2).

The following weighted average assumptions were used for the valuation of stock options and finders' warrants granted during the year:

Risk-free interest rate	3.29%
Expected dividend yield	0%
Expected stock price volatility	100%
Average expected option life in years	2.81 years

On June 25, 2008, the Company adopted a stock option plan with the following terms:

- i) Options granted can not be lower than the market price of one share on the last trading day immediately preceding the day on which the option is granted, less the maximum applicable discount permitted by TSX Venture Exchange and the minimum exercise price per share must be at least \$0.10.
 - ii) At the time of the grant:
 - a) the total number of shares so reserved for issuance by the Board of directors shall not exceed ten (10%) percent of the issued and outstanding shares (on a non-diluted basis);
 - b) the aggregate number of shares so reserved for issuance to any one optionee in a 12 month period shall not exceed five (5%) percent of the issued shares (on a non-diluted basis);
 - c) the aggregate number of options granted to any one consultant in a 12 month period shall not exceed 2% of the issued shares;
 - d) the aggregate number of options granted to employees, who provide investor relations activities must not exceed 2% of the issued shares in any 12 month period; and
 - e) options issued to consultants performing investor relations services must vest in stages over 12 months with no more than one-quarter of the options vesting in any 3 month period.
 - f) options issued to employees vest at the discretion of the board of directors.
-

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9. Contributed Surplus

Balance consists of:

Balance – September 30, 2006	\$ 203,895
Funding by Kaminak Gold Corporation	194,180
<hr/>	
Balance – September 30, 2007	398,075
Funding by Kaminak Gold Corporation	46,875
Stock based compensation relating to period prior to spin out	7,027
Transfer of assets	(229,026)
Stock-based compensation on options granted	160,859
Warrants issued for property assignments	134,885
Warrants issued with flow-through shares	141,633
Agent's warrants issued	17,695
Warrants issued to NTI	13,777
Warrants exercised	(56,072)
<hr/>	
Balance – September 30, 2008	\$ 635,728

10. Related Party Transactions

Included in the current year are consulting fees of \$6,601, rent of \$5,431, travel and conference charges of \$13,000, office and sundry charges of \$3,455 and investor relations charges of \$1,417 to companies controlled by directors and officers of the Company.

During the year the Company paid \$73,250 in consulting fees, reimbursed \$981 in travel and conference expenditures, and reimbursed \$594 in resource property costs to directors and officers.

During the year ended September 30, 2008, Kaminak, a company with common directors and officers transferred its Uranium properties to the Company in exchange for 18,233,761 units of the Company (Note 2).

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

11. Financial Instruments

Categories of financial assets and liabilities

As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments are the same. The carrying value of the Company's financial instruments is classified into the following categories:

	September 30, 2008
Held for trading	\$ 936,350
Available for sale	\$ 180,000
Receivables	\$ 130,783
Other financial liabilities	\$ 173,313

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11. Financial Instruments - Continued

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had a cash balance of \$936,350 to settle current liabilities of \$173,313. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of September 30, 2008, the Company did not have any investments invested in investment-grade short-term deposit certificates.

(b) Foreign currency risk

The Company operates predominately in Canada and is not exposed to any significant foreign currency risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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12. Capital Management

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 resource properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity as well as cash, receivables and current liabilities.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture property arrangements, acquire or dispose of assets or adjust the amount of cash.

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met.

13. Income Taxes

- a) The income tax provision for the year differs from the amount obtained by applying the statutory Canadian federal and provincial income tax rates as follows:

	For the Year Ended September 30, 2008	
Earnings (Loss) before income taxes	\$	(313,156)
Statutory Canadian federal and provincial tax rates		31.905%
Expected tax recovery		(99,912)
Non deductible (deductible) expenses		
Allocation of expenditures from Kaminak		17,174
Stock-based compensation		51,322
Amortization		1,926
Gain on optioning of resource property		(38,124)
Share issuance costs		(10,210)
Unrecognized benefit of non-capital losses		77,824
		-
Future income tax recovery	\$	-

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13. Income Taxes - Continued

b) The components of the future income tax asset (liability) balances are as follows:

	September 30, 2008
Future income tax asset (liability)	
Equipment	\$ 1,570
Resource property costs	(31,068)
Marketable securities	(15,600)
Non-capital loss carry-forwards	63,420
Share issuance costs	33,280
Future income tax asset	51,602
Valuation allowance	(51,602)
Future income tax liability	\$ -

The effective income tax rate is the rate that is estimated to be applicable when the timing differences reverse. For 2008 this rate is estimated to be 26%.

The Company has available for deduction against future taxable income non-capital losses of approximately \$243,000. These losses, if not utilized, will expire through 2028. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

14. Segmented Information

The current years presentation includes the following segments:

	September 30, 2008	September 30, 2007
Net Loss:		
Kivalliq	\$ 259,254	\$ -
From Kaminak ⁽¹⁾	53,902	123,813
Total Expenditures	\$ 313,156	\$ 123,813
Assets:		
Kivalliq	\$ 3,675,667	\$ -
From Kaminak ⁽²⁾	311,421	229,026
Total Assets	\$ 3,987,088	\$ 229,026

1 – Expenditures allocated from Kaminak as per the carve out (refer to Note 2)

2 – Assets acquired from Kaminak as part of the Spin out transaction (refer to Note 2)

The Company operates in one industry, being the acquisition, exploration and development of resources properties. All of the Company's properties are located in Canada.

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15. Subsequent Events

- a) On November 13, 2008, the Company granted 2,655,000 stock options exercisable at \$0.15 per share to November 12, 2013 to officers, directors and consultants of the Company.
- b) The Company issued 250,000 common shares to Canaccord Capital Corporation for Financial Advisory Services.

NOTES: