

KIVALLIQ ENERGY CORPORATION

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Canadian Dollars



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kivalliq Energy Corporation

We have audited the accompanying financial statements of Kivalliq Energy Corporation which comprise the balance sheets as at September 30, 2011 and 2010 and the statements of operations and comprehensive loss, changes in shareholders' equity and 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.

Auditors' Responsibility

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 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 auditors' 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Kivalliq Energy Corporation as at September 30, 2011 and 2010 and the results of its operations and its cash flows for years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada
January 23, 2012

Chartered Accountants



Kivalliq Energy Corporation

(An Exploration Stage Company)

Balance Sheets

As at September 30

(Expressed in Canadian Dollars)

ASSETS	2011		2010	
Current				
Cash and cash equivalents	\$	7,213,622	\$	5,222,744
Other receivables		467,979		2,543
HST recoverable		931,236		507,982
Prepaid expenses		197,836		342,191
		8,810,673		6,075,460
Equipment (Note 3)		580,033		50,452
Resource Property Costs (Note 4 and Property Schedule)		27,882,471		11,622,913
	\$	37,273,177	\$	17,748,825
LIABILITIES				
Current				
Accounts payable and accrued liabilities	\$	3,901,303	\$	1,383,786
Future Income Tax Liability (Note 10)		1,082,899		548,300
		4,984,202		1,932,086
SHAREHOLDERS' EQUITY				
Share Capital		30,916,649		13,278,744
Contributed Surplus		5,852,557		4,807,817
Deficit		(4,480,231)		(2,269,822)
		32,288,975		15,816,739
	\$	37,273,177	\$	17,748,825

Nature of Operations and Going Concern (Note 1)

Commitments (Notes 4 and 9)

Subsequent Events (Note 12)

APPROVED ON BEHALF OF THE BOARD:

"James Paterson", CEO, Director

"John Robins", Director

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

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

(Expressed in Canadian Dollars)

	2011	2010
Expenses		
Bank charges and interest	\$ 6,472	\$ 3,301
Depreciation	76,223	18,347
Investor relations	143,617	31,995
Listing and filing fees	55,819	53,204
Office and sundry	164,470	110,324
Professional fees	195,469	125,555
Salaries and consulting fees	359,145	218,913
Stock-based compensation <i>(Note 5)</i>	1,498,932	683,639
Transfer agent fees	20,206	30,412
Travel and conference	191,124	90,504
Loss before the undernoted	(2,711,477)	(1,366,194)
Other income (expenses)		
Interest income	72,759	258
Loss on foreign exchange	(1,378)	(12)
Loss before income taxes	(2,640,096)	(1,365,948)
Future income tax recovery <i>(Note 10)</i>	429,687	111,800
Net loss and comprehensive loss for the year	(2,210,409)	(1,254,148)
Basic and diluted loss per common share	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding	108,439,725	48,140,754

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

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statement of Shareholders' Equity
For the Years Ended September 30, 2011 and 2010

(Expressed in Canadian Dollars)

	Share Capital		Contributed surplus	Deficit	Total shareholders' equity
	Number of shares	Amount			
Balance, September 30, 2009	41,354,494	\$ 5,017,771	\$ 969,256	\$ (1,015,674)	\$ 4,971,353
Issued for cash:					
Private placements	34,800,000	4,689,958	3,510,042	-	8,200,000
Exercise of options	42,000	7,500	-	-	7,500
Exercise of warrants	11,549,000	3,701,200	-	-	3,701,200
Fair value of options exercised	-	2,066	(2,066)	-	-
Fair value of warrants exercised	-	785,248	(785,248)	-	-
Issued for resource property	250,000	90,000	-	-	90,000
Flow-through income tax renunciation	-	(384,000)	-	-	(384,000)
Returned to treasury	(2,125)	(553)	-	-	(553)
Stock-based compensation	-	-	683,639	-	683,639
Share issuance costs - cash	-	(111,551)	(86,701)	-	(198,252)
Share issuance costs - warrants	-	(518,895)	518,895	-	-
Loss for the year	-	-	-	(1,254,148)	(1,254,148)
Balance, September 30, 2010	87,993,369	13,278,744	4,807,817	(2,269,822)	15,816,739
Issued for cash:					
Private placements – non flow-through	10,300,000	5,150,000	-	-	5,150,000
Private placements – flow-through	19,476,457	12,400,160	-	-	12,400,160
Exercise of options	1,558,700	371,910	-	-	371,910
Exercise of warrants	3,035,000	1,069,500	-	-	1,069,500
Fair value of options exercised	-	223,882	(223,882)	-	-
Fair value of warrants exercised	-	412,923	(412,923)	-	-
Issued for resource property	250,000	85,000	-	-	85,000
Flow-through income tax renunciation	-	(1,215,000)	-	-	(1,215,000)
Stock-based compensation	-	-	1,498,932	-	1,498,932
Share issuance costs – cash	-	(928,571)	-	-	(928,571)
Tax benefit on share issuance costs	-	250,714	-	-	250,714
Share issuance costs - warrants	-	(182,613)	182,613	-	-
Loss for the year	-	-	-	(2,210,409)	(2,210,409)
Balance, September 30, 2011	122,613,526	\$ 30,916,649	\$ 5,852,557	\$ (4,480,231)	\$ 32,288,975

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

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

	2011	2010
Cash Flows from Operating Activities		
Net loss for the year	\$ (2,210,409)	\$ (1,254,148)
Items not affecting cash:		
Depreciation	76,223	18,347
Future income tax recovery	(429,687)	(111,800)
Stock-based compensation	1,498,932	683,639
Changes in non-cash working capital:		
Other receivables	(465,436)	32,432
HST recoverable	(423,254)	(418,123)
Prepaid expenses	144,355	(329,156)
Accounts payable and accrued liabilities	136,686	17,921
	(1,672,590)	(1,360,888)
Cash Flows from Investing Activities		
Resource property costs	(13,793,727)	(6,278,172)
Equipment	(605,804)	(19,586)
	(14,399,531)	(6,297,758)
Cash Flows from Financing Activity		
Issuance of share capital, net of issuance costs	18,062,999	11,710,448
Net Increase in Cash and Cash Equivalents	1,990,878	4,051,802
Cash and Cash Equivalents- Beginning of Year	5,222,744	1,170,942
Cash and Cash Equivalents- End of Year	\$ 7,213,622	\$ 5,222,744

Supplemental Schedule of Non-Cash Investing and Financing Activities

Resource property costs included in accounts payable	\$ 3,726,533	\$ 1,345,702
Issuance of shares for property acquisitions	\$ 85,000	\$ 90,000
Fair value of agent warrants	\$ 182,613	\$ 518,895
Fair value of options and warrants exercised	\$ 636,805	\$ 787,314
Cash paid during the year for income taxes	\$ -	\$ -
Cash paid during the year for interest	\$ -	\$ -

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

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

	2011		2010	
	Acquisition Costs	Deferred Exploration Costs	Total	Total
Mineral Interests				
<i>Angilak, Nunavut</i>				
Acquisition costs – shares and warrants	\$ 85,000	\$ -	\$ 85,000	\$ 90,000
Claim maintenance	179,118	-	179,118	22,884
Recording and staking	-	-	-	63,076
Airborne geophysics	-	6,178,564	6,178,564	1,365,597
Assays	-	223,346	223,346	119,360
Drilling	-	4,236,135	4,236,135	1,511,165
Field and supplies	-	1,710,102	1,710,102	2,079,195
Geological consulting	-	2,304,320	2,304,320	981,240
Travel and accommodation	-	1,342,973	1,342,973	1,336,024
Resource Property Costs for the Year	264,118	15,995,440	16,259,558	7,568,541
Balance, Beginning of the Year	571,914	11,050,999	11,622,913	4,054,372
Balance end of the Year	\$ 836,032	\$27,046,439	\$ 27,882,471	\$ 11,622,913

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

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

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”.

Long-term continuance of the Company’s operations is dependent upon achieving profitable operations and obtaining additional equity or debt financing. The recoverability of the carrying values of the Company’s resource property interests is dependent upon the existence and discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production from or proceeds from the disposition of resource properties.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

2. Significant Accounting Policies

a) **Basis of Presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

b) **Foreign Currency Translation**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and comprehensive loss.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

c) Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

d) Equipment

The Company provides for depreciation on its equipment at an annual rate of 20% for furniture and fixtures and field equipment, 30% for computer equipment, and 100% for computer software on the declining balance method. The Company provides for depreciation of leasehold improvements on a straight-line basis over the term of the lease. One-half of the rate is taken in the year of acquisition.

e) Comprehensive Income (Loss)

Comprehensive income (loss) 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. For the years presented net income (loss) equals comprehensive income (loss).

f) Resource Property Costs

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain resources or 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 to operations.

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, successfully complete the regulatory permitting process 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.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

g) Asset Retirement Obligations

The Company recognizes the fair value of legal obligations relating to retirement of resource properties, 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 resource properties or equipment are estimated to require any significant 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 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) 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.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

j) Basic and Diluted Loss per Common Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the year.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

k) Flow-Through Shares

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.

l) 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. Significant areas requiring the use of estimates relate to the determination of impairment of resource property costs, useful lives for depreciation of equipment and estimates relating to stock-based compensation and the valuation of warrants. Actual results could differ from those estimates.

m) 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.

n) Financial Instruments

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 and 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. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income (loss). 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.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

n) **Financial Instruments - Continued**

The Company has classified its cash and cash equivalents as held-for-trading. Other receivables and HST recoverable are classified as loans and receivables and accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost.

The Company also provides required disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

The Company has included the required disclosure in Note 7 of the financial statements.

o) **Comparative Figures**

Certain of the comparative year figures have been reclassified to conform to the current year's presentation.

p) **Future Changes in Accounting Standards**

International Financial Reporting Standards (“IFRS”)

In February 2008 the Canadian Accounting Standards Board (“AcSB”) announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's existing 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 October 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011.

The Company has completed the diagnostic phase of planning for the implementation of IFRS. It has determined that the principal areas of impact will be IFRS 1 – first time adoption; presentation of financial statements; asset retirement obligations; impairment of assets; flow-through shares and share-based payments. The Company completed its detailed analysis of relevant IFRS requirements and of IFRS 1, along with its determination of changes to accounting policies and choices to be made. The Company is prepared to adopt IFRS effective October 1, 2011.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

3. Equipment

Details for September 30, 2011 are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Field equipment	\$ 570,335	\$ 84,036	\$ 486,299
Computer equipment	17,162	6,074	11,088
Computer software	24,891	19,770	5,121
Furniture & fixtures	26,085	2,609	23,476
Leasehold improvements	54,049	-	54,049
	\$ 692,522	\$ 112,489	\$ 580,033

Details for September 30, 2010 are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Field equipment	\$ 63,073	\$ 25,870	\$ 37,203
Computer equipment	8,997	3,071	5,926
Computer software	14,648	7,325	7,323
	\$ 86,718	\$ 36,266	\$ 50,452

4. Resource Property Costs

Details are as follows:

	Acquisition Costs	Exploration Costs	Cumulative as at September 30, 2011	Cumulative as at September 30, 2010
Angilak, Nunavut	\$ 836,032	\$ 27,046,439	\$ 27,882,471	\$ 11,622,913

General

The Company acquired from Kaminak, a related party, through the reorganization transaction (Note 1) the following uranium properties: the Angilak Property, the Baker Lake Property, and the Washburn Property. All costs relating to the Baker Lake Property and the Washburn Property were written off to operations in the year ended September 30, 2009.

Angilak, Nunavut

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

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

4. Resource Property Costs – Continued

Kaminak signed an Exploration Agreement (“EA”) with Nunavut Tunngavik Inc. (“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 (issued) common shares from treasury staged over 36 months beginning after final TSX:V approval for the spin-out transaction.
- 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.

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 (2008/2009/2010/2011 Paid).

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

5. Share Capital

As at September 30, 2011, there were an unlimited number of common voting shares without par value authorized.

As at September 30, 2011, there were nil (2010 – 1,094,027) common shares held in escrow.

a) Private Placements

2011

On April 5, 2011, the Company closed a non-brokered private placement of 1,750,000 common shares at a price of \$0.50 per common share for gross proceeds of \$875,000.

In connection with this private placement the Company issued 60,000 finder warrants exercisable at a price of \$0.50 per common share. The finder warrants are exercisable for a period of two years from the date of issuance into one common share. The finder warrants attached to this issuance have been valued at \$18,116 based upon the Black-Scholes valuation model using the following assumptions noted below. Finder's fees of \$61,526 were paid in cash.

Risk-free interest rate	1.86%
Expected dividend yield	0%
Expected stock price volatility	118%
Average expected warrant life	2 years

On March 31, 2011, the Company closed a non-brokered private placement of 8,550,000 common shares at a price of \$0.50 per common share for gross proceeds of \$4,275,000.

In connection with this private placement the Company issued 249,000 finder warrants exercisable at a price of \$0.50 per common share. The finder warrants are exercisable for a period of two years from the date of issuance into one common share. The finder warrants attached to this issuance have been valued at \$75,237 based upon the Black-Scholes valuation model using the following assumptions noted below. Finder's fees of \$254,000 and due diligence and filing fees of \$20,076 were paid in cash.

Risk-free interest rate	1.82%
Expected dividend yield	0%
Expected stock price volatility	118%
Average expected warrant life	2 years

On March 30, 2011, the Company closed a bought deal private placement of 12,333,600 flow-through common shares at a price of \$0.60 per flow-through common share for gross proceeds of \$7,400,160.

Kivalliq Energy Corporation
(An Exploration Stage Company)
Notes to Financial Statements
September 30, 2011
(Expressed in Canadian Dollars)

5. Share Capital - Continued

a) Private Placements: - *Continued*

In connection with this private placement the Company issued 370,008 agent warrants exercisable at a price of \$0.90 per common share. The agent warrants are exercisable for a period of two years from the date of issuance into one common share. The agent warrants attached to this issuance have been valued at \$89,260 based upon the Black-Scholes valuation model using the following assumptions noted below. Finder's fees of \$444,010 and due diligence and filing fees of \$28,959 were paid in cash.

Risk-free interest rate	1.77%
Expected dividend yield	0%
Expected stock price volatility	118%
Average expected warrant life	2 years

On December 20, 2010, the Company closed a non-brokered private placement of 7,142,857 flow-through common shares at a price of \$0.70 per flow-through common share for gross proceeds of \$5,000,000. Finder's fees of \$120,000 were paid in cash.

2010

On September 16, 2010, the Company closed a private placement of 24,800,000 units at a price of \$0.25 per unit for gross proceeds of \$6,200,000. Each unit sold consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share for a period of 24 months from the date of issuance of the unit, being either July 29, 2012 or September 10, 2012, at a price of \$0.35 per common share. Finder's fees of \$142,500 were paid in cash. The units issued are subject to a four month hold period ending on January 11, 2011.

The warrants attached to this issuance have been valued at \$2,286,685 based upon the Black-Scholes valuation model using the weighted average assumptions noted below:

Risk-free interest rate	1.57%
Expected dividend yield	0%
Expected stock price volatility	184%
Average expected warrant life	2 years

On February 22, 2010, the Company closed a private placement of 10,000,000 units at a price of \$0.20 per unit for gross proceeds of \$2,000,000. Each unit sold consisted of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable into one common share for a period of 24 months from closing at a price of \$0.35 per common share. Finder's fees of \$55,752 were paid in cash. The units issued are subject to a four month hold period from the Closing date.

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5. Share Capital - Continued

a) Private Placements: - *Continued*

The warrants attached to this issuance have been valued at \$1,223,357 based upon the Black-Scholes valuation model using the following assumptions noted below:

Risk-free interest rate	1.38%
Expected dividend yield	0%
Expected stock price volatility	201%
Average expected warrant life	2 years

During the year ended September 30, 2010, the Company issued 2,115,000 share purchase warrants to existing warrant holders as part of an incentive program to encourage the exercise of outstanding warrants. Under the terms of the program, each holder of an original warrant who elects to exercise their original warrant prior to July 9, 2010, received an additional share purchase warrant exercisable at a price of \$0.45 per common share for a period of 18 months. The fair value of the incentive warrants, being \$496,895, was determined using the Black Scholes option pricing model.

b) Warrants

Details as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2009	11,576,500	\$0.42
Issued	24,715,000	\$0.36
Exercised	(11,549,000)	\$0.32
Expired	(4,457,500)	\$0.60
Outstanding warrants, September 30, 2010	20,285,000	\$0.36
Issued	679,008	\$0.72
Exercised	(3,035,000)	\$0.35
Outstanding warrants, September 30, 2011	17,929,008	\$0.38

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5. Share Capital - Continued

b) Warrants - Continued

At September 30, 2011, warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
December 15, 2011	\$0.45	1,250,000	0.21
December 18, 2011	\$0.45	75,000	0.22
December 23, 2011	\$0.45	237,500	0.23
December 29, 2011	\$0.45	62,500	0.25
January 6, 2012	\$0.45	32,500	0.27
January 7, 2012	\$0.45	385,000	0.27
February 22, 2012	\$0.35	3,607,500	0.40
July 28, 2012	\$0.35	9,150,000	0.83
September 10, 2012	\$0.35	2,450,000	0.95
March 30, 2013	\$0.90	370,008	1.50
March 31, 2013	\$0.50	249,000	1.50
April 5, 2013	\$0.50	60,000	1.52
Weighted average of exercise price and remaining contractual life	\$0.38	17,929,008	0.71

Refer to Note 12 for details of warrants expired subsequent to September 30, 2011.

c) Stock Options

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan vest over time at the discretion of the board of directors and expire no later than five years from the date of issuance. Exercise prices on options granted under the plan cannot 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 common share must be at least \$0.10.

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5. Share Capital - Continued

c) Stock Options - *Continued*

The changes in stock options issued are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, September 30, 2009	3,778,200	\$ 0.18
Issued	2,050,000	0.40
Exercised	(42,000)	0.18
Cancelled	(56,000)	0.26
Outstanding options, September 30, 2010	5,730,200	0.26
Issued	2,945,000	0.51
Exercised	(1,558,700)	0.24
Cancelled	(14,000)	0.46
Outstanding options, September 30, 2011	7,102,500	\$0.37

As at September 30, 2011, incentive stock options represent 5.8% (September 30, 2010 – 6.5%) of the issued and outstanding common shares.

At September 30, 2011 the following stock options were outstanding:

Expiry Date	Weighted Average Exercise Price	Issued Number of Options	Vested and Exercisable Number of Options	Weighted Average Remaining Contractual Life in Years
December 7, 2011	\$0.25	40,000	40,000	0.19
April 2, 2012	\$0.36	96,000	96,000	0.51
June 18, 2012	\$0.36	38,000	38,000	0.72
November 12, 2013	\$0.15	2,075,000	2,075,000	2.12
August 11, 2014	\$0.25	150,000	150,000	2.87
January 29, 2015	\$0.30	583,500	583,500	3.33
April 22, 2015	\$0.45	1,165,000	1,165,000	3.56
September 8, 2015	\$0.40	20,000	20,000	3.94
October 19, 2015	\$0.50	2,860,000	2,860,000	4.05
February 22, 2016	\$0.77	75,000	37,500	4.40
Weighted average of exercise price and remaining contractual life	\$0.37	7,102,500	7,065,000	3.24

Refer to Note 12 for details of options exercised subsequent to September 30, 2011.

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5. Share Capital - Continued

c) Stock Options - *Continued*

During the year ended September 30, 2011, the Company granted options to acquire 2,945,000 (2010 – 2,050,000) common shares with a weighted average exercise price of \$0.51 per common share, of which 2,907,500 (2010 - \$0.40 and 1,682,500) vested during the year. Stock-based compensation expense under the Black-Scholes option pricing model of \$1,498,932 (2010 - \$683,639) was recorded in relation to options vested during the year. The weighted average fair value of the options granted was \$0.48 (2010 - \$0.37) per option.

The following weighted average assumptions were used for the valuation of stock options granted during the year ended September 30, 2011:

Risk-free interest rate	1.88%
Expected dividend yield	0%
Expected stock price volatility	175%
Average expected option life	5 years

The following weighted average assumptions were used for the valuation of stock options granted during the year ended September 30, 2010:

Risk-free interest rate	2.81%
Expected dividend yield	0%
Expected stock price volatility	197%
Average expected option life	5 years

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6. Related Party Transactions

Included in the current year are consulting fees of \$54,372 (2010 - \$28,786) included within salaries and consulting fees, travel and conference charges of \$39,233 (2010 - \$9,900), office and sundry charges of \$102,903 (2010 - \$88,686), investor relations charges of \$5,000 (2010 - \$Nil), accounting fees of \$32,332 (2010 - \$10,384) included within professional fees and resource property costs of \$19,747 (2010 - \$Nil) to companies controlled by directors and officers of the Company.

During the year the Company paid \$214,350 (2010 - \$116,250) in consulting fees to directors and officers included within salaries and consulting fees and paid \$85,300 (2010 - \$62,049) in accounting and secretary fees included in professional fees.

At September 30, 2011, \$58,491 (September 30, 2010 - \$Nil) was due from Kaminak and \$187,792 (September 30, 2010 - \$Nil) was due from a company controlled by directors and officers of the Company. These amounts are included in other receivables. At September 30, 2011, \$30,042 (September 30, 2010 - \$3,578) was due to a company controlled by directors and officers of the Company and \$80,414 (September 30, 2010 - \$13,720) was due to directors and officers of the Company. These amounts are included in accounts payable and accrued liabilities.

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.

The amounts due to and from related parties are non-interest bearing with no fixed terms of repayment.

7. Financial Instruments

Categories of financial assets and liabilities

The fair value of the Company's other receivables, HST recoverable and accounts payable and accrued liabilities approximate carrying value which is the amount recorded on the balance sheet due to their short term nature. The Company's other financial instrument, cash and cash equivalents, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets and liabilities.

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 receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote as receivables relate to interest receivable from a major financial institution, related party balances, HST recoverable from the Government of Canada, and other balances which have been subsequently collected.

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7. Financial Instruments - Continued

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, 2011, the Company had a cash and cash equivalents balance of \$7,213,622 (September 30, 2010 – \$5,222,744) to settle current liabilities of \$3,901,303 (September 30, 2010 - \$1,383,786). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that the Company has sufficient funds to meet its obligations as they become due.

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, 2011, the Company had \$5,934,500 (2010 - \$37,533) in term deposits.

(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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8. 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.

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. There were no changes in the Company's approach to capital management during the year ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

9. Commitments

The Company has entered into agreements for the rental of office space that require minimum payments in the aggregate as follows:

Fiscal 2012	\$ 59,962
Fiscal 2013	59,276
Fiscal 2014	59,276
Fiscal 2015	59,276
Fiscal 2016	34,578
Total Commitments	\$ 272,368

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10. 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, 2011	For the Year Ended September 30, 2010
Loss before income taxes	\$ (2,640,096)	\$ (1,365,949)
Statutory Canadian federal and provincial tax rates	27.43%	28.88%
Expected tax recovery	(724,211)	(394,418)
Non deductible (deductible) expenses		
Stock-based compensation and other	258,312	282,618
Difference in Canadian tax rate	36,201	-
Future income tax recovery	\$ (429,698)	\$ (111,800)

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

	September 30, 2011	September 30, 2010
Future income tax asset (liability)		
Equipment	\$ 12,249	\$ 4,590
Resource property costs	(2,126,750)	(844,300)
Non-capital loss carry-forwards	774,107	236,290
Share issuance costs	257,494	55,120
Future income tax liability	\$ (1,082,899)	\$ (548,300)

The effective income tax rate is the rate that is estimated to be applicable when the timing differences reverse. For 2011 this rate is estimated to be 27.00% (2010 – 28.88%).

The Company has available for deduction against future taxable income in Canada, non-capital losses of approximately \$2,867,000. These losses, if not utilized, will expire from 2028 to 2031. 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 fully recognized in these financial statements and have been partially offset by a valuation allowance.

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10. Income Taxes - Continued

During the year ended September 30, 2010, the Company issued 6,428,571 common shares on a flow-through basis for gross proceeds of \$4,500,000 which were renounced during the current year. The flow-through agreement requires the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. Future income taxes of \$1,215,000 of the exploration expenditures to be renounced to shareholders were applied against share capital.

During the year ended September 30, 2009, the Company issued 7,180,000 common shares on a flow-through basis for gross proceeds of \$1,534,000 which were renounced during the 2010 year. Future income taxes of \$384,000 of the exploration expenditures to be renounced to shareholders were applied against share capital.

11. Segment Information

The Company operates in one reportable segment, being the acquisition, exploration and evaluation of mineral resources. All of the Company's equipment and resource properties are located in Canada.

12. Subsequent Events

- a) Subsequent to September 30, 2011, 140,000 options were exercised for gross proceeds of \$32,500, 600,000 warrants were exercised for gross proceeds of \$210,000 and 2,042,500 warrants expired without exercise.