Form 51-102F1
Annual Management Discussion and Analysis For
Kivalliq Energy Corporation ("Kivalliq" or "KIV" or the "Company")

Containing information up to and including January 15, 2009.

Note to Reader

The following information should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2008, together with the notes thereto, prepared by management in accordance with Canadian generally accepted accounting principles and expressed in Canadian Dollars.

Forward-Looking Information

When used in this document, words like "anticipate", "believe", "estimate" and "expect" and similar expressions are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objects and goals for the Company and therefore, involve inherent risks and uncertainties. The reader is cautioned that actual results, performance, or achievements may be materially different from those implied or expressed in such statements.

Overall Performance

Kivalliq 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 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". Kaminak was incorporated on July 4, 2005 under the Business Corporations Act (British Columbia), and is an exploration stage enterprise focusing on the acquisition, exploration and development of economic gold and other precious and base metal properties.

Highlights of the Company's activities during the period ended September 30, 2008:

Financing and Corporate

- The Company completed a non-brokered private placement of 6,400,000 Kivalliq Special Warrants, convertible to Kivalliq common shares 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 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 Company completed a brokered private placement of 4,000,000 Kivalliq flow-through units at a price of $0.40 per unit for gross proceeds of $1,600,000 in two tranches. 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 private first tranche closed on May 14, 2008 for gross proceeds of $360,000 and the second tranche closed June 9, 2008 for gross proceeds of $1,240,000. 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.

- The Company obtained its approval for listing on the TSX Venture Exchange on July 4, 2008 and began trading under the symbol "KIV" on July 7, 2008.

- The Company mobilized a geological field crew to the Angilak Project in Nunavut. The main objective of this year's field work is to construct a drill plan for the Lac Cinquante Uranium Deposit.

Exploration

Highlights of the Company's activities subsequent to the period ended September 30, 2008:

- On November 12, 2008, the Company appointed Jeff Ward, BSc, P.Geo as Vice President, Exploration and announced the appointment of Garth Kirkham, BSc, P.Geo. P.Geoph to the Board of Directors.

- On November 3, 2008, the Company completed its 2008 Field Program which included:

    - The first modern-day survey was flown over the majority of the Angilak property identifying numerous radiometric anomalies and several electromagnetic anomalies consistent with possible sulfide mineralization. In addition, a number of discrete, circular, magnetic anomalies were identified during the course of the survey representing potential kimberlite targets.

    - New geological mapping carried out in the Lac Cinquante area; 98 rock and 36 core samples were submitted for analysis.

    - The 2008 ground VLF survey successfully re-identified the Lac Cinquante deposit and a possible extension 1.5 km to the southeast.

    - Historical drill holes were identified and corresponding drill core was re-logged and radio-assayed using a GR-135 spectrometer.

The Company is planning to continue to carry out exploration of its mineral properties, and to evaluate new prospects and opportunities. The Company expects to obtain financing in the future primarily through further equity and/or debt financing, as well as through joint venturing of the Company's properties to qualified mineral exploration companies.

The Company's loss from operations for the period ended September 30, 2008 was $313,156 ($0.02 per share). Assets totalled $3,987,088 as at September 30, 2008.

The Company is an exploration stage company and engages principally in the acquisition, exploration and development of resource properties. The Company capitalizes all acquisition and exploration costs until the property to which those costs are related is placed into production, sold, or abandoned. The decision to abandon a property is largely determined from exploration results and the amount and timing of the Company's write-offs of capitalized resource property costs will vary in a fiscal period from one year to the next and typically cannot be predicted in advance. During the period ended September 30, 2008 resource property costs totalled $2,514,291 details of the cost break-down are contained in the Consolidated Schedule of Resource Property Costs in the financial statements.

Results of Operations

For the Period ended September 30, 2008

During the period ended September 30, 2008, the Company's main tasks were the exploration of its Angilak property and obtaining its listing on the TSX Venture Exchange. The Company's net loss for this period was largely an influence of the general and administrative expenses incurred to obtain this listing.

Net loss for the period ended September 30, 2008 was $313,156 or $0.02 per share after stock-based compensation expense of $167,886 from the granting of 1,059,200 stock options to existing Kaminak stock option holders. Aside from stock-based compensation, the largest areas of expenditure during this period were consulting fees, professional fees, listing and filing fees and investor relations expenses. Also, included in the loss was a total of $53,902 general and administration expenditures which were transferred from Kaminak as part of the Spin Out of the Uranium properties.

- Consulting fees totalled $99,915 and included $41,000 paid the Company's President and CEO, $32,250 paid to the Company's chairman, as well as $20,063 allocated from Kaminak.

- Professional fees totalled $46,164, including $15,000 paid to the Company's corporate secretary, $7,200 paid for ongoing accounting services, and $15,912 paid for ongoing legal services, in addition to the allocation of $8,052 from Kaminak.

- Listing and filing fees totalled $33,794, $32,631 relating to the Company's filing fees as a listed company on the TSX Venture Exchange, in addition to the allocation of $1,163 from Kaminak.

- Investor relations fees totalled $30,731, included in that was $5,000 for sponsorship of a conference, $6,830 for website design and hosting, and an allocation of $7,330 from Kaminak.

The above expenses represented approximately 75% of total operating expenses prior to stock-based compensation.

For the Three Months ended September 30, 2008

Net loss for the three months ended September 30, 2008 was $197,602, ($0.01 per share) after stock-based compensation expense of $167,886 from the granting of 1,059,200 stock options to existing Kaminak stock option holders. The largest areas of expenditure, aside from stock-based compensation, during this period were consulting fees and investor relations expenses.

- Consulting fees totalling $42,852 were paid to the company's executive for management services.

- Professional fees totalling $38,112 were paid during the period to the company's corporate secretary, the company's controller, and the company's lawyers

- Investor relations fees totalling $11,526, were paid to increase the newly listed Company's profile on the Internet and at investor conferences.

- The increased expenses were partially offset by the gain on the optioning of the Baker Lake Property of $119,493 realized with the receipt of shares of Pacific Exploration Ltd.

Selected Annual Information:

The following table summarizes selected financial data reported by the Company for the period ended September 30, 2008. The information set forth should be read in conjunction with the consolidated audited financial statements, prepared in accordance with generally accepted accounting principles, and the related notes thereon.

	For the year ended or as at September 30, 2008	For the year ended or as at September 30, 2007*	For the year ended or as at September 30, 2006*
Revenues	Nil	Nil	Nil
Interest and other income	$129,574	Nil	Nil
Loss	$313,156	$123,813	$45,236
Basic and diluted loss per share	$0.02	NA	NA
Total assets	$3,987,088	$229,026	$158,659
Total long term debt	Nil	Nil	Nil
Shareholders' equity (deficiency)	$3,813,775	$229,026	$158,659
Share Capital	$3,600,252	Nil	Nil
Contributed Surplus	$635,728	$398,075	$203,895
Deficit	$(482,205)	$169,049	$45,236
Cash dividends declared per share	Nil	Nil	Nil

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 of the financial statements. These results 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.

Summary of Quarterly Results

The following table summarizes selected quarterly financial data reported by the Issuer.

	Sept. 30, 2008	June 30, 2008	March 31, 2008*
Revenues	Nil	Nil	Nil
Interest and other income	$125,852	$3,722	Nil
Net loss(**)	$(197,602)	$(61,652)	$(53,902)
Basic and diluted loss per share	$(0.01)	$(0.01)	$(0.02)
Total assets	$3,987,088	$4,475,746	$344,135
Future income tax liability	Nil	Nil	Nil
Shareholders' equity	$3,813,775	$3,259,769	$344,135
Share capital	$3,600,252	$1,455,324	$195,081
Contributed surplus	$635,728	$519,048	$149,054
Deficit	$(482,205)	$(284,603)	Nil
Cash dividends declared per share	Nil	Nil	Nil

* For the period from incorporation on February 13, 2008 to March 31, 2008

** For the period from incorporation on February 13, 2008 to March 31, 2008 the net loss and deficit is a result of the general and administrative expenses allocated from Kaminak on the spin out of the assets

Liquidity and Capital Resources

The Company is in the exploration stage and therefore has no regular cash flow. At September 30, 2008, the Company had working capital of $1,245,142.

Cash and cash equivalents totalled $936,350.

<u>For the period ended September 30, 2008</u>

During the period ended September 30, 2008, the Company's primary source of cash was from the issuance of special warrants and the issuance of share capital, gross proceeds received totalled $3,513,747. Of this $2,156,579 was spent on the Company's resource properties.

At September 30, 2008, the Company's investment in resource properties, aggregated $2,514,291, made up of the following:

	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**

At September 30, 2008, share capital totalled $3,600,252 comprised of 30,778,744 issued and outstanding common shares. As a result of the loss for the period of $313,156 the deficit at September 30, 2008 was $482,205. With contributed surplus of $635,728 resulting from the allocation of the deficit from Kaminak, and the fair value calculation of warrants issued, and other comprehensive income of $60,000 from the adjustment to the fair value of the marketable securities held, the shareholders' equity at September 30, 2008 was $3,813,775.

The Company currently has sufficient financial resources to meet its administrative overhead expenses and exploration expenditures at least for the next twelve months and is confident that even with the current tightening of the venture capital markets, it will be able to utilize the expertise of its board and management and can raise additional funds to undertake its planned exploration activities. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity and the ability of the Company to raise additional capital.

Exploration Update

General – 2008 Overall Program:

During the period the Company contracted Aeroquest Ltd. to complete a 5,620 line kilometre, combined magnetic, electromagnetic and radiometric airborne geophysical survey over selected areas of the Angilak property. This is the first modern-day survey to be completed on the property and survey results will aid in geological modeling of known prospects and provide new exploration targets that will be followed-up by ground prospecting this season.

GeoVector Management Ltd. of Ottawa, Ontario has been contracted to oversee the technical aspects of the Angilak Project.

Angilak, Nunavut

Angilak is a combination of two properties, the RI-30 parcel located on Inuit Owned Lands, and additional claims staked on Federal Crown land.

Kaminak signed an Exploration Agreement (EA) with Nunavut Tunngavik Incorporated ("NTI") whereby Kaminak was granted a 100% interest in the minerals within privately owned Inuit Owned Lands that comprise parcel RI-30. 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 shares from treasury staged over 36 months beginning only after final TSXV approval for the spin-out transaction. No Kaminak shares will be issued to NTI. 250,000 shares were issued on July 4, 2008
- 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 study. These terms will include any feasibility study on Kivalliq's adjacent 230,000 acre Yathkyed property.
- Kivalliq shall perform a minimum of 6,000m of drilling before the fourth anniversary of the agreement, including at least 3,000m to be completed at Lac Cinquante.
- 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 C$1 million.
- Resulting from 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 C$50,000 annually.

2008

During the year, the Company, contracted Geovector Management Ltd., who flew a 5,620 line km, combined magnetic, electromagnetic and radiometric geophysical survey covering more than 75% of the Angilak property, including the area encompassing the Lac Cinquante Uranium Deposit. This was the first modern-day survey flown over the Angilak property and numerous radiometric anomalies were identified along with several electromagnetic anomalies consistent with possible sulfide mineralization. In addition, a number of discrete, circular, magnetic anomalies were identified during the course of the survey representing potential kimberlite targets.

The 2008 field program reproduced and verified a great deal of historical or lost data from previous explorers. In addition, updated geological information was gathered in the Lac Cinquante deposit area, including new samples from surface showings and historical core.

In the immediate vicinity of the Lac Cinquante Uranium Deposit, the original grid was recovered in the field and the collars were located for 123 historical drill holes. Core for most of these holes is preserved on site; specific intervals of core were re-logged and radioassayed with a GR-135 model spectrometer. As verification, eight core samples and five surface samples were also sent for laboratory analysis. In addition, 120 line km of ground radiometrics, 83 line km of ground magnetics and 18 line km of VLF were completed in this area. The Lac Cinquante deposit was historically recognized as a VLF anomaly; VLF surveying in 2008 has re-identified this anomaly and recognized new anomalies representing a possible extension 1.5 km to the southeast. This, combined with the distribution of drill holes on the ground and the position of mineralization within the core, has enabled a preliminary reconstruction of the location of the deposit to be made.

Over the remainder of the Angilak Project area, approximately 100 man-days were spent field checking geophysical targets, obtaining Quaternary information, prospecting, mapping, and evaluating the historical uranium occurrences identified in the 1970's and 1980's by Pan Ocean, Urangesellschaft Canada and Noranda. 58 line km of ground magnetics, 20 line km of ground radiometrics and three line km of VLF surveying were completed over target areas deemed to be prospective and 121 rock and core samples were submitted for analysis. The objective of this work is to identify new mineralized trends throughout the project area, and develop an up to date geological model that incorporates both new showings and historical occurrences.

2007

During the previous year, Kaminak completed a field program on claims and prospecting permits that comprise the Company's 200,000 acre Angilak Uranium and IOCG (Iron-Oxide-Copper-Gold) project located in Nunavut, Canada. The results of these assays included:

- A grab sample from the YAT trend returns 31.9 g/t Au, 1,170 g/t Ag, 1.18% Cu and 0.24% U_3O_8.
- Historical data indicates the gold potential on the YAT trend was overlooked as previous companies assayed only for uranium, base metals and silver.

- Mineralized veins hosted in sandstone and conglomerate located near basin unconformity

Lac Cinquante

The Lac Cinquante Uranium Deposit was discovered by Pan Ocean Oil Ltd. in the late 1970's and was later acquired by Aberford Resources Ltd. Very little geological assessment information is available in the public government archives; however, a researcher from the Geological Survey of Canada published a description of the deposit geology in the mid-1980's based on a study of outcropping surface mineralization and diamond drill core (CIMM Special Paper #33, p. 263 to 285).

The CIMM report described the deposit as a vein-type hydrothermal system which resembles the classical veins of the Beaverlodge District in Saskatchewan. Mineralization consists of a steeply dipping series of fractures and veins, 1 to 3m wide, that contain variable amounts of pitchblende and sulphide minerals accompanied by hematite, carbonate, albite and silica alteration. The host structure is at least 1100m long and the mineralized portion measuring about 400m in length. Mineralization extends from surface to at least 265m depth and remains to be fully delineated.

Vein-like structures observed at Lac Cinquante represent one of many different styles of uranium mineralization on the property.

YAT Mineralized Trend

Kaminak geologists visited the YAT Mineralized trend sites in 2007 and collected a single representative sample of football-sized rubble from locally-derived frost heave. This sample yielded an assay of 31.9 g/t Au, 1,170 g/t Ag, 1.18% Cu and 0.24% U_3O_8.

Following the initial samples, Kaminak subsequently sent an independent geological consultant to the YAT area to conduct further sampling. A total of 6 samples were collected from surface frost heave and locally derived boulders. These samples were collected from several different styles of mineralization and alteration. Anomalous gold results of 4.77 g/t Au and 2.54 g/t Au were obtained from two of these samples located 35m and 5m away, respectively, from Kaminak's original sample.

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 and Shear Minerals Ltd. has a 8.5% Net Profits Interest. The agreement pertains to all commodities other than diamonds.

Washburn Uranium Project, Nunavut

The Washburn Uranium Property comprises 197,797 acres located on Victoria Island in Nunavut.

Risks and Uncertainties

Exploration Stage Company

Kivalliq is engaged in the business of acquiring and exploring mineral properties in the hope of locating economic deposits of minerals. All of its properties are in the early stages of exploration and are without known deposits of commercial ore. Development of Kivalliq's properties will only follow upon obtaining satisfactory exploration results. There can be no assurance that Kivalliq's existing or future exploration programs will result in the discovery of commercially viable mineral deposits. Further, there can be no assurance that even if an economic deposit of minerals is located, that it can be commercially mined.

Mineral Exploration and Development

The exploration and development of minerals is highly speculative in nature and involves a high degree of financial and other risks over a significant period of time which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a mineral deposit or orebody may result in significant rewards, few properties which are explored are ultimately developed into producing mines. Substantial expenses are required to establish ore reserves by drilling, sampling and other techniques and to design and construct mining and processing facilities. Whether a mineral deposit will be commercially viable depends on a number of factors, including the particular attributes of the deposit (i.e. size, grade, access and proximity to infrastructure), financing costs, the cyclical nature of commodity prices and government regulations (including those relating to prices, taxes, currency controls, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection). The effect of these factors or a combination thereof, cannot be accurately predicted but could have an adverse impact on Kivalliq.

Mining Operations and Insurance

Mining operations generally involve a high degree of risk. Kivalliq's operations are subject to all of the hazards and risks normally encountered in mineral exploration and development. Such risks include unusual and unexpected geological formations, seismic activity, rock bursts, cave-ins, flowing and other conditions involved in the drilling and removal of material, environmental hazards, industrial accidents, periodic interruptions due to adverse weather conditions, labour disputes, political unrest and in the case of diamonds, theft of production. The occurrence of any of the foregoing could result in damage to, or destruction of, mineral properties or interests, production facilities, personal injury, damage to life or property, environmental damage, delays or interruption of operations, increases in costs, monetary losses, legal liability and adverse government action. Kivalliq does not currently carry insurance against these risks and there is no assurance that such insurance will be available in the future, or if available, at economically feasible premiums or acceptable terms. The potential costs associated with liabilities not covered by insurance or excess insurance coverage may cause substantial delays and require significant capital outlays.

No Operating History and Financial Resources

Kivalliq does not have an operating history and has no operating revenues and is unlikely to generate any in the foreseeable future. It anticipates that its existing cash resources following the private placements, will be sufficient to cover its projected funding requirements for the ensuing year. If its exploration program is successful, additional funds will be required for further exploration to prove economic deposits and to bring such deposits to production. Additional funds will also be required for Kivalliq to acquire and explore other mineral interests. Kivalliq has limited financial resources and there is no assurance that sufficient additional funding will be available to it fulfill its obligations or for further exploration and development, on acceptable terms or at all. Failure to obtain additional funding on a timely basis could result in delay or indefinite postponement of further exploration and development and could cause Kivalliq to forfeit its interests in some or all of its properties or to reduce or terminate its operations.

Government Regulation

The current or future operations of Kivalliq, including exploration and development activities and the commencement and continuation of commercial production, require licenses, permits or other approvals from various foreign federal, state and local governmental authorities and such operations are or will be governed by laws and regulations relating to prospecting, development, mining, production, exports, taxes, labour standards, occupational health and safety, waste disposal, toxic substances, land use, water use, environmental protection, land claims of indigenous people and other matters. There can be no assurance, however, that Kivalliq will obtain on reasonable terms, or at all, he permits and approvals, and the renewals thereof, which it may require for the conduct of its current or future operations or that compliance with applicable laws, regulations, permits and approvals will not have an adverse effect on any mining project which Kivalliq may undertake. Possible future environmental and mineral tax legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays to Kivalliq’s planned exploration and operations, the extent of which cannot be predicted.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Competition

The mineral exploration and mining business is competitive in all of its phases. Kivalliq will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties. Kivalliq’s ability to acquire properties in the future will depend not only on its ability to develop is present properties, but also on its ability to select and acquire suitable prospects for mineral exploration or development. There is no assurance that Kivalliq will be able to compete successfully with others in acquiring such prospects.

Title to Property

Some of Kivalliq's properties are held in the names of others. Kivalliq has taken precautions to ensure that legal titles to its property interests are properly recorded. There can be no assurance that Kivalliq will be able to secure the grant or the renewal of exploration permits or other tenures on terms satisfactory to it, or that governments in the jurisdictions in which the properties are situated will not revoke or significantly alter such permits or other tenures or that such permits and tenures will not be challenged or impugned. Third parties may have valid claims underlying portions of Kivalliq's interests and the permits or tenures may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. If a title defect exists, it is possible that Kivalliq may lose all or part of its interest in the properties to which such defects relate.

Environmental Risks and Hazards

All phases of Kivalliq's operations will be subject to environmental regulation in the jurisdictions in which it intends to operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation, provide for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry activities and operations. They also set forth limitations on the generation, transportation, storage and disposal of hazardous waste. A breach of such regulation may result in the imposition of fines and penalties. In addition, certain types of mining operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the viability or profitability of operations. Environmental hazards may exist on the properties in which Kivalliq holds interests or on properties that will be acquired which are unknown to Kivalliq at present and which have been caused by previous or existing owners or operators of the properties.

Commodity Prices

The price of Kivalliq's securities, its financial results and exploration, development and mining activities may in the future be significantly adversely affected by declines in the price of precious or base minerals. Precious or base minerals prices fluctuate widely and are affected by numerous factors beyond Kivalliq's control such as the sale or purchase of precious or base metals by various dealers, central banks and financial institutions, interest rates, exchange rates, inflation or deflation, currency exchange fluctuation, global and regional supply and demand; production and consumption patterns, speculative activities, increased production due to improved mining and production methods, government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, environmental protection and international political and economic trends, conditions and events. The price of precious or base metals has fluctuated widely in recent years, and future serious price declines could cause continued development of Kivalliq's properties to be impracticable.

Further, reserve calculations and life-of-mine plans using significantly lower precious or base minerals prices could result in material write-downs of Kivalliq's investment in mining properties and increased amortization, reclamation and closure charges.

In addition to adversely affecting reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Price Volatility

In recent years, the securities markets in Canada and elsewhere have experienced a high level of price and volume volatility, and the market prices of securities of many public companies have experienced significant fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any quoted market for Kivalliq's securities will be subject to such market trends and that the value of such securities may be affected accordingly.

Key Executives

Kivalliq is dependent on the services of key executives and a small number of highly skilled and experienced consultants and personnel, whose contributions to the immediate future operations of Kivalliq are likely to be of importance. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of Kivalliq, the loss of these persons or Kivalliq's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business and future operations. Kivalliq does not currently carry any keyman life insurance on any of its executives. The directors and officers of Kivalliq only devote part of their time to the affairs of Kivalliq.

Potential Conflicts of Interest

Certain directors and officers of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

Dividends

Kivalliq has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and development. Any future determination to pay dividends will be at the discretion of the Board of Directors of Kivalliq and will depend on Kivalliq's financial condition, results of operations, capital requirements and such other factors as the Board of Directors of Kivalliq deem relevant.

Nature of the Securities

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in Company's securities should not constitute a major portion of an investor's portfolio.

Proposed Transactions

There are no proposed transactions that should be disclosed.

Additional Disclosure for Venture Issuers Without Significant Revenue

Additional disclosure concerning KIV's general and administrative expenses and resource property costs is provided in the Company's Statement of Loss and Deficit and Schedule of Resource Property Costs contained in its Financial Statements for September 30, 2008, available on www.sedar.com .

Outstanding Share Data

Kivalliq's authorized capital is unlimited common shares without par value. As at January 15, 2009, the following common shares, options and share purchase warrants were outstanding:

	# of Shares	Exercise Price	Expiry Date
Issued and Outstanding Common Shares at January 15, 2009	31,028,744		
Share Purchase Warrants	900,000	$0.50/$0.60	May 14, 2010[1]
	3,100,000	$0.50/$0.60	June 9, 2010[2]
Agents Share Purchase Warrants	400,000	$$0.50/$0.60	June 9, 2010[2]
Employee Stock Options	597,200	$0.25	January 17, 2011
	20,000	$0.25	April 7, 2011
	20,000	$0.25	April 25, 2011
	166,000	$0.25	July 21, 2011
	20,000	$0.25	December 7, 2011
	96,000	$0.36	April 2, 2012
	54,000	$0.36	June 18, 2012
Fully Diluted at August 27, 2008	36,401,944		

[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

Off Balance Sheet Arrangements

The Company does not utilize off balance sheet arrangements.

Transactions with Related Parties

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.

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.

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	$	160,000
Receivables	$	130,783
Other financial liabilities	$	173,313

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 and cash equivalent 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 in 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.

Recent Developments and Outlook

The Company expects to obtain financing in the future primarily through further equity and/or debt financing, as well as through joint venturing and/or optioning out the Company's properties to qualified mineral exploration companies. There can be no assurance that the Company will succeed in obtaining additional financing, now or in the future. Failure to raise additional financing on a timely basis could cause the Company to suspend its operation and eventually to forfeit or sell its interest in its mineral properties.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, short-term investments, GST receivable, cash call receivable, accrued interest receivable, marketable securities, due to related party and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

Changes in Accounting Policies

As this is the initial year of reporting for the Company the following policies are all newly adopted

Equipment

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

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.

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 on the Company from the adoption of this section is the following:

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.

Section 3862 and 3863 – Financial Instruments Disclosures and Presentation

The Company adopted CICA Section 3862 and 3863, "Financial Instruments Disclosures and Presentation". This section requires 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 on the Company of this is disclosed under Financial Instruments.

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 diamond 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.

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.

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.

Share Capital

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

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.

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.

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.

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.

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.

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 but 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 and 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.

Critical Accounting Estimates

The Company's accounting policies are presented in note 3 of the accompanying financial statements. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the financial statements. Actual amounts could differ materially from the estimates used and, accordingly, affect the results of the operations. These include:

- the carrying values of mineral properties; and
- the valuation of stock-based compensation expense.

Mineral properties and deferred exploration costs

The Company records its interest in mineral properties at cost. Resource exploration and development costs are capitalized on an individual area of interest basis until such time as an economic resource 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.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. When it is determined that a mineral property is impaired, it is written down to its estimated fair value.

Management's estimates of mineral prices, mineral resources, and operating, capital and reclamation costs are subject to certain risks and uncertainties that may affect the recoverability of deferred mineral property costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows expected to be generated from its properties.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to continue operations and to complete the development and upon future profitable production or proceeds from the disposition thereof. The discovery or establishment of adequate reserves is dependent on successful exploration. Competition for exploration resources at all levels is currently very intense, particularly affecting availability of manpower, drill rigs and helicopters. As a result of this, and other factors inherent in exploration, the Company has uncertainty that it will be able to carry out its planned exploration programs.

Stock-based compensation expense

From time to time, the Company may grant share purchase options to directors, employees, and service providers. The Company uses the Black-Scholes option pricing model to estimate a value for these options. This model, and other models which are used to value options, require inputs such as expected volatility, expected life to exercise, and interest rates. Changes in any of these inputs could cause a significant change in the stock-based compensation recorded in a period.

Approval

The Board of Directors of Kivalliq Energy Corp. has approved the disclosure contained in this annual MD&A. A copy of this annual MD&A will be provided to anyone who requests it.

Additional Information

Additional information can be obtained by contacting:

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