November 9, 2009

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Dear Mr. Keim;

RE: 2009 WATER USE INSPECTION REPORT FOR 2BE-ANG0813
ANGILAK PROJECT, KIVALLIQ ENERGY CORPORATION

We have received the Water Use Inspection Report Form issued on October 21, 2009 for the Inspection conducted on August 11, 2009. We have reviewed the Report and offer the following in response.

Water Supply
In your report you note that fuel was stored within 30 metres of the lake by camp. We would like to clarify that this was a single, 5 gallon jerry can that was being used to support a 4 hp water supply pump. In future, Kivalliq will keep all fuel at a minimum distance of 30 metres of any water body, unless it is housed in some form of secondary containment. We feel it necessary to clarify the volume of fuel being stored as the Inspector's report left it open to interpretation and we did not want the impression that Kivalliq had a fuel cache within the 30 metre setback.

The report also notes that there were no records or metering of water for the camp. The inspection occurred shortly after the camp was established and exploration just initiated. The Project Manager did keep track of water usage on a computer in the office, but had not formalized the reporting yet. The volume of the water storage tank is known (250 gallons), constant and was not filled more than once daily - well below the permitted volume. Therefore we are able to report on the volume of water used at the camp. It is unclear why the Inspector is requesting a meter to be installed.

Waste Disposal
To follow up comments on waste disposal, Kivalliq Energy has obtained a registered waste generator number for Nunavut, has hauled incinerator ash off site to Yellowknife and disposed of this material in an approved manner.

However, we do request some clarification on comments made by the Inspector during his visit. The Inspector stated that Kivalliq Energy could not backhaul anything for disposal to the nearest community of Baker Lake since the hamlet is without a water licence, the dump is not compliant, and dumping there is "illegal". We respectfully request recommendations regarding which Nunavut communities INAC considers compliant for waste disposal, since our only other option is to backhaul and service remote camps out of territory.

Fuel Storage
The report states that the fuel drums stored at site were "scattered on the tundra in piles". To clarify, every effort was made by Kivalliq Energy to keep the fuel caches tidy, orderly and easy to inspect. Full drums were stored in rows behind camp, in groups of up to 18 drums, and empty drums were stored upright and centrally (see attached photos). However, difficulties with uneven ground and willow vegetation made neat stacking difficult. The current camp location is less than ideal and is the reason that an amendment application was submitted to move the camp to a more suitable location. Only 17 full drums and 60 empties remain on site. Once the camp move is approved and complete, fuel will be stored at a flat central location adjacent to the new camp.

Secondary containment and spill kits were established at all fueling locations (camp, helicopter pad and drill sites) and at every drum behind tents (see attached photos). As the Inspector stated, a centralized cache location has been chosen at the new camp site. Concerns regarding secondary containment for all caches will be addressed at this new location and a number of options for storage and containment are being reviewed.

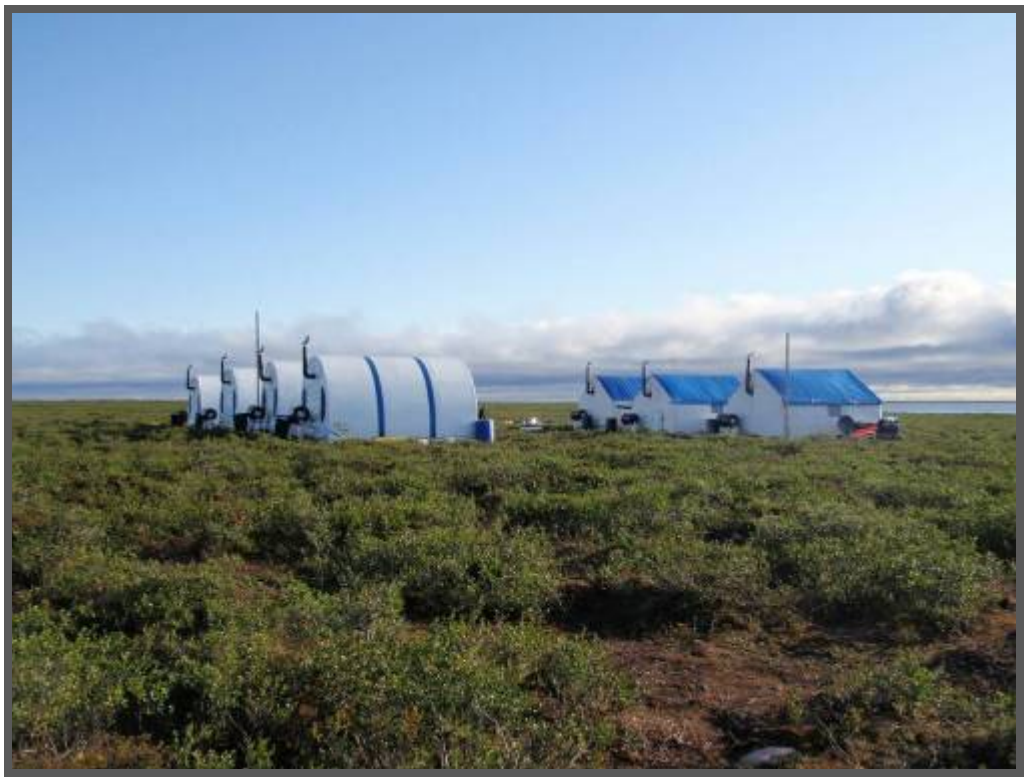
Non-Compliance of Act or Licence
A spill did occur on site when a single drum fell while being transported via helicopter. The incident was promptly reported as set out in Kivalliq's approved spill plan. The fuel spilled over a broad area of boulders and broken rock. Staff responded immediately with a spill kit and shovels with the intent of cleaning up the spill. However, a visual inspection showed little signs of fuel to clean up, or a way to excavate the boulders and rocks (see attached photos). The Inspector recommended digging up the entire area, based on his brief assessment from a helicopter 20 metres away. However, a closer inspection would have shown this was not practical, nor possible due to ground conditions. Sampling was conducted in the nearest water body to the spill site to ensure that the spill had not entered the water. The results indicate that no hydrocarbons were present in the water (see attached report).

As mentioned under the heading of Fuel Storage, we are currently reviewing options for fuel storage and containment. Kivalliq Energy will update the Spill Contingency Plan for submission once a final decision has been made regarding fuel storage.

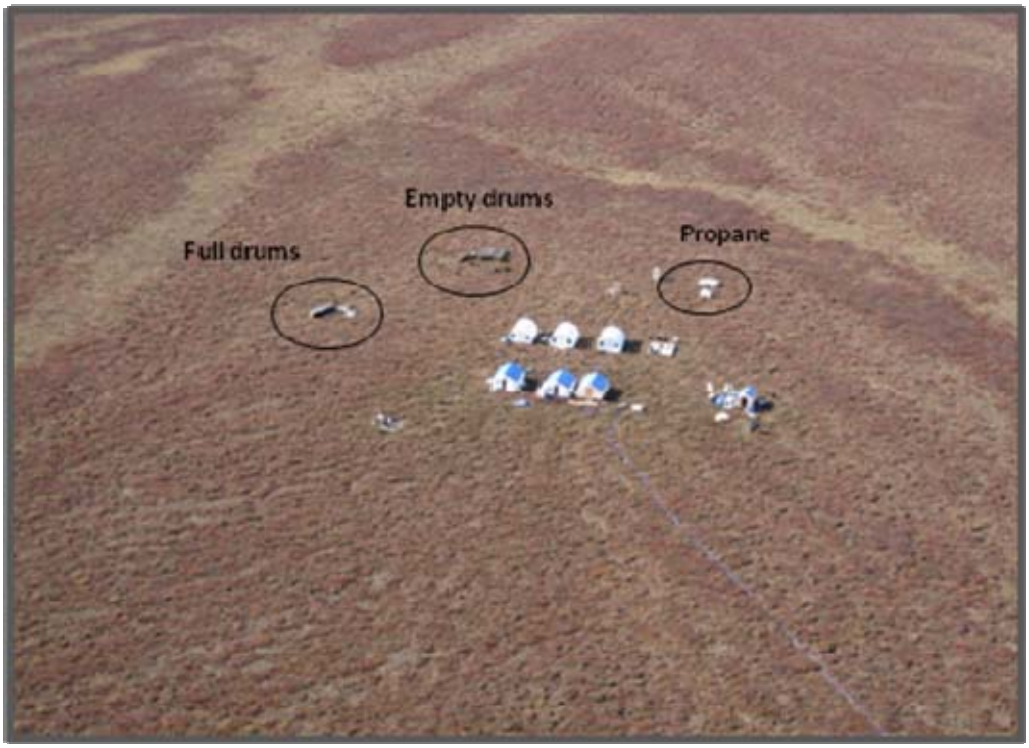
We would like to take this opportunity to thank the INAC Inspector for coming to the Angilak Project this year. Overall the information that was provided was helpful and will be incorporated in to future field programs and when moving the camp. We at Kivalliq Energy pride ourselves on a co-operative and communicative approach to conducting business.

Regards,

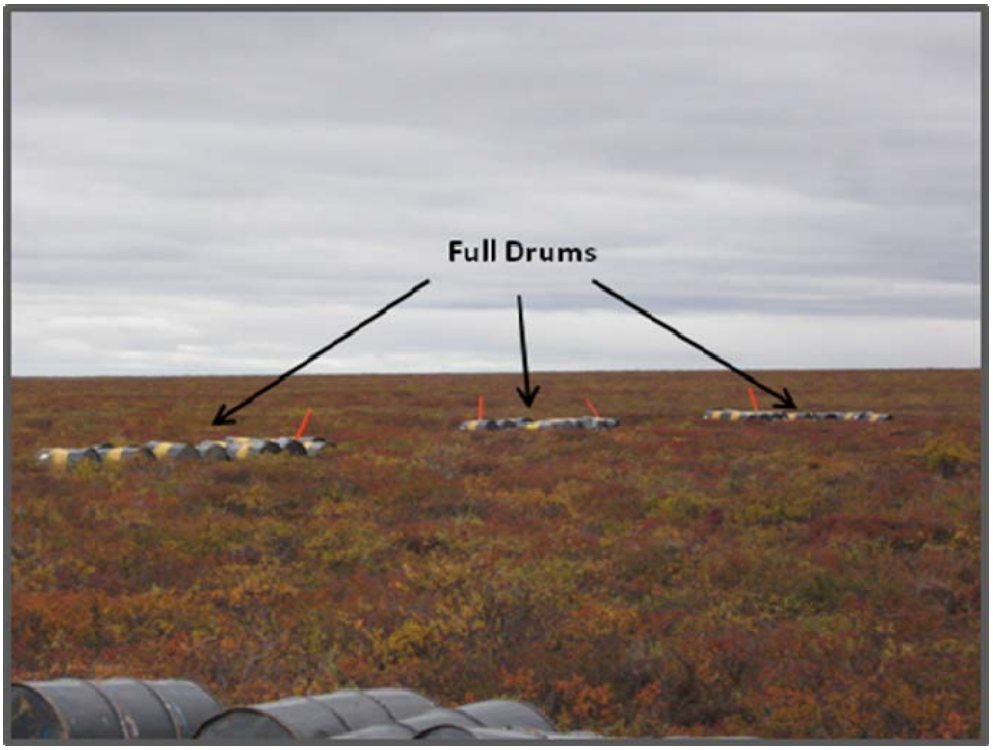
Jeff Ward
Vice President of Exploration
Kivalliq Energy Corporation



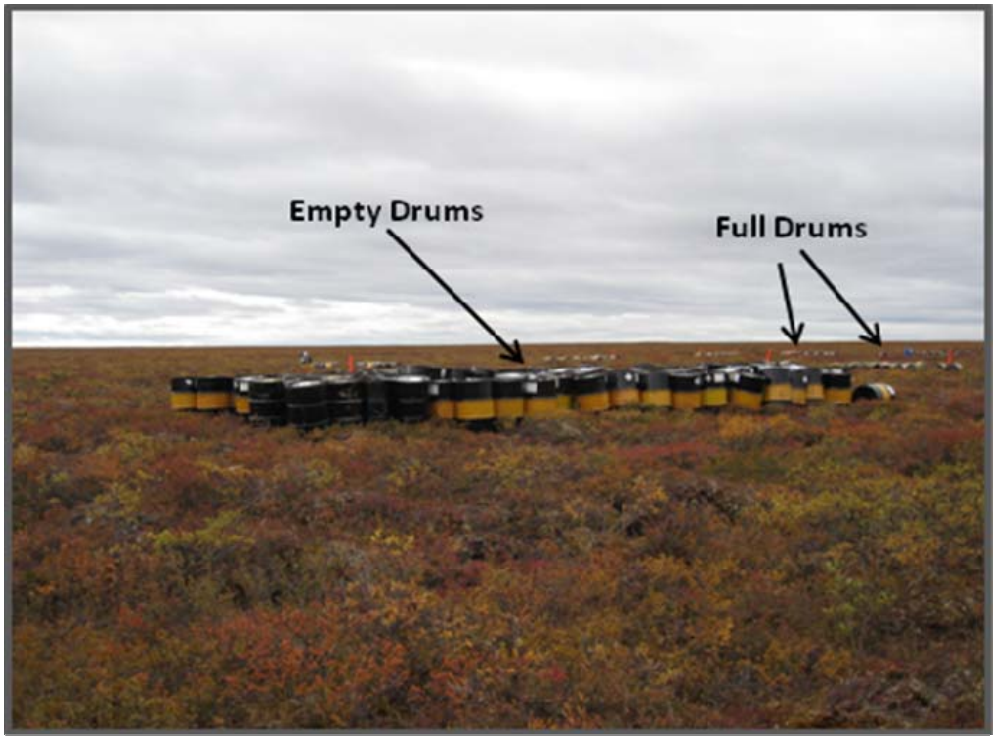
Angilak Operations – August 2009



Angilak Camp – September 2009



Rows of full drums behind Angilak camp



Rows full drums and central empties cache behind Angilak camp

Secondary containment at tents

Secondary containment at drill rig

Secondary containment at camp generator

Fuel spill site in rocks and boulders

Boulders and frost heave at spill site