KIVALLIQ ENERGY CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2017 AND 2016

Canadian Dollars

Unaudited – Prepared by Management

Notice of Non-review of Condensed Interim Financial Statements

The attached condensed interim financial statements for the six month period ended March 31, 2017 and 2016 have been prepared by and are the responsibility of the Company's management and have been approved by the Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed interim financial statements.

Kivalliq Energy Corporation

(An Exploration Stage Company)
Condensed Interim Statements of Financial Position
(Unaudited – Expressed in Canadian Dollars)

	Notes		March 31, 2017		September 30, 2016
ASSETS					
Current assets:					
Cash and cash equivalents		$	2,698,761	$	395,719
Marketable securities	3		315,173		428,516
Other receivables	4		7,081		34,931
GST recoverable			6,625		36,290
Prepaid expenses			23,600		25,379
			3,051,240		920,835
Equipment	5		278,284		309,643
Exploration and evaluation assets	6		56,299,385		56,715,023
		$	59,628,909	$	57,945,501
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities		$	44,491	$	107,602
Flow-through share premium liability	7		-		8,193
			44,491		115,795
Long-term liability	6		100,000		50,000
Deferred tax liability			3,293,290		3,561,167
			3,437,781		3,726,962
SHAREHOLDERS' EQUITY					
Share capital	7		61,461,263		60,294,821
Contributed surplus			11,277,668		10,438,229
Accumulated other comprehensive income	3		91,515		144,556
Deficit			(16,639,318)		(16,659,067)
			56,191,128		54,218,539
		$	59,628,909	$	57,945,501

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Notes 6 and 11)*
Subsequent Events *(Note 13)*

APPROVED ON MAY 30, 2017 ON BEHALF OF THE BOARD:

"James Paterson", CEO ,Director *"John Robins"* ,Director

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

Kivalliq Energy Corporation
(An Exploration Stage Company)
Condensed Interim Statements of Operations and Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars)

	Note	Three months ended March 31, 2017	Three months ended March 31, 2016	Six months ended March 31, 2017	Six months ended March 31, 2016
Expenses					
Amortization and depreciation	5	$ 15,680	$ 23,013	$ 31,359	$ 46,026
Bank charges and interest		59	48	79	189
Investor relations		7,918	20,297	17,588	54,778
Listing and filing fees		4,223	8,102	4,562	10,395
Office and sundry		23,450	33,136	47,393	74,510
Professional fees		20,366	38,505	22,866	40,789
Project evaluation		15,672	-	30,942	-
Salaries and consulting fees		50,129	87,863	91,073	177,317
Transfer agent fees		2,289	1,379	3,438	3,761
Travel and conference		21,109	23,771	30,039	23,952
Loss before the undernoted		(160,895)	(236,114)	(279,339)	(431,717)
Other income (expenses)					
Project operator fees		7,073	-	7,073	313
Interest		395	3,549	845	4,189
Other income		-	100,000	3,441	100,000
Loss on foreign exchange		(11)	-	(182)	(49)
Realized gain on sale of marketable securities		-	-	20,119	-
Recovery on exploration and evaluation asset	6	-	-	-	199,408
Amortization of flow-through premium liability	7	4,299	72,527	8,193	88,189
Loss before income taxes		(149,139)	(60,041)	(239,850)	(39,667)
Deferred tax (expense) recovery		246,733	(65,350)	259,599	(93,256)
Net income (loss) for the period		97,594	(125,391)	19,749	(132,923)
Change in fair value of marketable securities		78,794	(11,397)	(61,318)	(11,397)
Tax recovery (expense) in OCI from change in fair value of marketable securities		(10,637)	1,539	8,278	1,539
Total comprehensive loss for the period		$ 165,751	$ (135,249)	$ (33,291)	$ (142,781)
Basic and diluted loss per common share		$ 0.000	$ (0.001)	$ (0.000)	$ (0.001)
Weighted average number of common shares outstanding		242,137,842	216,821,731	231,362,665	216,821,731

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

Kivalliq Energy Corporation

(An Exploration Stage Company)
Condensed Interim Statements of Cash Flows for the Six Months Ended March 31,
(Unaudited – Expressed in Canadian Dollars)

	Notes		2017		2016
Operating Activities					
Net income (loss) for the period		$	19,749	$	(132,923)
Items not involving cash:					
Amortization and depreciation	5		31,359		46,026
Deferred tax expense (recovery)			(259,599)		93,256
Amortization of flow-through premium liability	7		(8,193)		(88,189)
Interest income			(845)		(4,189)
Realized gain on sale of marketable securities			(20,119)		-
Changes in non-cash working capital:					
Other receivables			27,780		3,715
GST recoverable			29,665		35,532
Prepaid expenses			1,779		81,294
Accounts payable and accrued liabilities			(31,047)		(40,064)
			(209,471)		(5,542)
Interest received			915		1,155
			(208,556)		(4,387)
Investing Activities					
Exploration and evaluation assets			501,014		(279,107)
Proceeds from the sale of marketable securities			72,144		-
			573,158		(279,107)
Financing Activities					
Issuance of share capital, net of issuance costs			1,938,440		-
			1,938,440		-
Net increase (decrease) in cash and cash equivalents			2,303,042		(283,494)
Cash and cash equivalents, beginning of period			395,719		947,553
Cash and cash equivalents, end of period		$	2,698,761	$	664,059

Supplemental Schedule of Non-Cash Investing Activities				
Exploration and evaluation expenditures included in accounts payable	$	41,639	$	37,777
Exploration and evaluation expenditures included in other receivables	$	-	$	3,795
Fair value of private placement warrants	$	656,685	$	-
Fair value of warrants issued as finders' fees	$	182,754	$	-
Cash paid for income taxes	$	-	$	-
Cash paid for interest	$	-	$	-

Cash and cash equivalents consist of:		March 31, 2017		September 30, 2016
Cash on hand	$	1,590,218	$	137,827
Term deposits	$	1,108,543	$	257,892
	$	2,698,761	$	395,719

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Kivalliq Energy Corporation

(An Exploration Stage Company)
Condensed Interim Statement of Changes in Shareholders' Equity
(Unaudited – Expressed in Canadian Dollars)

	Notes	Share Capital					
		Number of shares	Amount	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, September 30, 2015		216,821,731	$ 59,992,575	$ 10,381,746	$ (16,258,405)	$ 57,385	$ 54,173,301
Tax recovery in OCI from fair value adjustment on marketable securities in OCI		-	-	-	-	1,539	1,539
Fair value adjustment on marketable securities		-	-	-	-	(11,397)	(11,397)
Loss for the period		-	-	-	(132,923)	-	(132,923)
Balance, March 31, 2016		216,821,731	59,992,575	10,381,746	(16,391,328)	47,527	54,030,520
Private placement shares and warrants issued		4,000,000	350,467	49,533	-	-	400,000
Flow-through share premium		-	(39,858)	-	-	-	(39,858)
Share issuance costs – cash		-	(1,413)	-	-	-	(1,413)
Share issuance costs – warrants		-	(6,950)	6,950	-	-	-
Tax recovery in OCI from fair value adjustment on marketable securities in OCI		-	-	-	-	(17,686)	(17,686)
Fair value adjustment on marketable securities		-	-	-	-	114,715	114,715
Loss for the period		-	-	-	(267,739)	-	(267,739)
Balance, September 30, 2016		216,821,731	60,294,821	10,438,229	(16,659,067)	144,556	54,218,539
Private placement shares and warrants issued		25,925,000	1,417,315	656,685	-	-	2,074,000
Share issuance costs – cash		-	(135,560)	-	-	-	(135,560)
Share issuance costs – warrants		-	(115,314)	115,314	-	-	-
Finders' warrants for royalty		-	-	67,441	-	-	67,441
Tax recovery in OCI from fair value adjustment on marketable securities in OCI		-	-	-	-	8,278	8,278
Fair value adjustment on marketable securities		-	-	-	-	(61,318)	(61,318)
Income for the period		-	-	-	19,749	-	19,749
Balance, March 31, 2017		**246,746,731**	**$ 61,461,263**	**$ 11,277,668**	**$ (16,639,318)**	**$ 91,515**	**$ 56,191,128**

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

Kivalliq Energy Corporation

(An Exploration Stage Company)
Schedule of Exploration and Evaluation Assets
(Unaudited – Expressed in Canadian Dollars)

	For the Six Month Period Ended March 31, 2017			For the year ended September 30, 2016
	Acquisition Costs	**Deferred Exploration Costs**	**Total**	Total
Angilak				
Land Administration	$ (533,140)	$ -	**$ (533,140)**	$ 70,040
Air Support and Transportation	-	584	**584**	166,488
Field and General Operations	-	19,844	**19,844**	89,834
Field Contractors and Consultants	-	1,448	**1,448**	55,871
Laboratory Costs	-	50,688	**50,688**	24,791
Fuel		(14,600)	**(14,600)**	(132,478)
Salaries and Wages	-	39,616	**39,616**	162,049
Travel and Accommodation	-	-	**-**	27,692
Baffin Gold				
Land Administration	116,300	-	**116,000**	-
Salaries and Wages	-	38,771	**38,771**	-
Travel and Accommodation	-	781	**781**	-
Baker Basin				
Land Administration	-	-	**-**	1,452
Salaries and Wages	-	-	**-**	1,079
Genesis				
Field and General Operations	-	-	**-**	2,187
Field Contractors and Consultants	-	-	**-**	391,000
Salaries and Wages	-	764	**764**	20,226
Option Agreement Payment	-	-	**-**	(377,876)
Hatchet Lake				
Land Administration	-	(138,971)	**(138,971)**	-
Air Support and Transportation	-		**-**	-
Field and General Operations	-		**-**	-
Field Contractors and Consultants	-		**-**	(1,443)
Laboratory Costs	-		**-**	326
Salaries and Wages	-		**2,197**	24,636
Exploration and Evaluation Assets for the Period	(555,781)	140,141	**(415,640)**	525,873
Balance, Beginning of the Period	$ 1,581,495	$ 55,133,528	**$ 56,715,023**	$ 56,189,150
Balance, End of the Period	$ 1,025,714	$ 55,273,671	**$ 56,299,385**	$ 56,716,023

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

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 Corporation. The Company is an exploration stage company focusing on the acquisition, exploration and development of resource properties. The Company's head office is located at Suite 1020, 800 West Pender Street, Vancouver, BC, V6C 2V6.

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. On July 7, 2008, after completion of its private placements, the Company's shares became publicly traded 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. As at March 31, 2017, the Company has not achieved profitable operations and has accumulated losses since inception. There is material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

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

These condensed interim financial statements are unaudited, but in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for fair presentation of the financial position, operations and changes in financial results for the interim periods presented.

2. Significant Accounting Policies and Basis of Presentation

These condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies followed in these condensed interim financial statements are the same as those applied in the Company's most recent annual financial statements for the year ended September 30, 2016.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of March 31, 2017, the date the Board of Directors approved the statements. Certain of the comparative year figures have been reclassified to conform to the current year's presentation. The condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended September 30, 2016.

(Unaudited – Expressed in Canadian Dollars)

2. Significant Accounting Policies and Basis of Presentation – *Continued*

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9 Financial instruments: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.

3. Marketable Securities and Other Comprehensive Income

	Fair value Oct 1, 2016	Additions Mar 31, 2017	Disposals Mar 31, 2017	Fair value adjustment Mar 31, 2017	Fair value Mar 31, 2017
Common shares	$ 428,516	$ -	$ (52,025)	$ (61,318)	**$ 315,173**
Warrants	-	-	-	-	**-**
	$ 428,516	$ -	$ (52,025)	$ (61,318)	**$ 315,173**

	Fair value Oct 1, 2015	Additions Sep 30, 2016	Disposals Sep 30, 2016	Fair value adjustment Sep 30, 2016	Fair value Sep 30, 2016
Common shares	$ 165,888	$ 177,285	$ (17,975)	$ 103,318	$ 428,516
Warrants	-	-	-	-	-
	$ 165,888	$ 177,285	$ (17,975)	$ 103,318	$ 428,516

During the six months ended March 31, 2017, the Company sold 1,040,500 common shares of an issuer listed on a North American stock exchange for proceeds of $72,144, net of transaction costs. The 1,040,500 common shares were initially acquired at a cost of $52,025 which resulted in a realized gain of $20,119.

Management has determined it appropriate to record these investments as available-for-sale financial assets. The initial investments were recorded at cost. The Company will revalue the investments at each reporting period. Any changes in the fair value of the investments will be recorded in other comprehensive income (“OCI”) until the investments are sold or otherwise disposed, at which point any gains and losses recorded to date will be recognized through profit or loss.

4. Other Receivables

	March 31, 2017	September 30, 2016
Roughrider Exploration Ltd.	**$ 7,081**	$ 2,731
Other miscellaneous receivables	**-**	32,200
	$ 7,081	$ 34,931

The Roughrider receivable as at March 31, 2017 is for exploration and evaluation expenses incurred by the Company as part of the exploration program on Genesis Property.

Other miscellaneous receivables as at September 30, 2016 pertain primarily to the sale of jet fuel.

(Unaudited – Expressed in Canadian Dollars)

5. Equipment

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost					
Balance at September 30, 2016	$ 31,595	$ 24,719	$ 925,225	$ 58,513	$ 1,040,052
Additions	-	-	-	-	-
Balance at March 31, 2017	$ 31,595	$ 24,719	$ 925,225	$ 58,513	$ 1,040,052
Accumulated depreciation					
Balance at September 30, 2016	$ 22,029	$ 16,831	$ 633,036	$ 58,513	$ 730,409
Depreciation	957	1,183	29,219	-	31,359
Balance at March 31, 2017	$ 22,986	$ 18,014	$ 662,255	$ 58,513	$ 761,768
Net book value at March 31, 2017	**$ 8,609**	**$ 6,705**	**$ 262,970**	**$ -**	**$ 278,284**

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost					
Balance at September 30, 2015	$ 31,595	$ 33,116	$ 937,263	$ 58,513	$ 1,060,487
Additions	-	2,514	-	-	2,514
Disposals	-	(10,911)	(12,038)	-	(22,949)
Balance at September 30, 2016	$ 31,595	$ 24,719	$ 925,225	$ 58,513	$ 1,040,052
Accumulated depreciation					
Balance at September 30, 2015	$ 9,637	$ 23,075	$ 567,858	$ 51,066	$ 661,636
Depreciation	2,392	3,859	73,881	7,447	87,109
Disposals		(9,633)	(8,703)	-	(18,336)
Balance at September 30, 2016	$ 22,029	$ 16,831	$ 633,036	$ 58,513	$ 730,409
Net book value at September 30, 2016	**$ 9,566**	**$ 7,888**	**$ 292,189**	**$ -**	**$ 309,643**

6. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	**Cumulative as at March 31, 2017**	Cumulative as at September 30, 2016
Angilak, Nunavut	$ 797,231	$ 54,378,596	**$ 55,175,827**	$ 55,611,407
Baffin Gold, Nunavut	116,330	39,552	**155,882**	-
Baker Basin, Nunavut	205,000	83,643	**288,643**	288,643
Genesis Property, Saskatchewan and Manitoba	-	228,387	**228,387**	227,553
Hatchet Lake, Saskatchewan	(92,847)	543,493	**450,646**	587,420
Total	$ 1,025,714	$ 55,273,671	**$ 56,299,385**	$ 56,715,023

General

The Company has the Angilak Property, Baffin Gold and the Baker Basin Property in Nunavut Territory, Canada, the Genesis Property in the Provinces of Saskatchewan and Manitoba, Canada, and the Hatchet Lake Property in Saskatchewan, Canada.

6. Exploration and Evaluation Assets - *Continued*

Angilak, Nunavut

The Angilak Property was acquired from Kaminak, formerly a related party with common directors and officers, through the reorganization transaction (Note 1). The Angilak Property is comprised of a central Inuit Owned Land parcel surrounded by adjacent and contiguous mineral claims on Federal Crown lands in Nunavut.

Kaminak originally 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 Inuit Owned Lands in good standing, Kivalliq has or will complete the following:

- Kivalliq issued 1,000,000 common shares from treasury to NTI 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 Inuit Owned Lands are not subject to royalty obligations to the Government of Canada, but instead are 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 is to pay annual advance royalty payments to NTI in the sum of $50,000 annually (2008 – 2014 paid). NTI has allowed the Company to defer the annual advance royalty payments due on December 31, 2015 and 2016 to December 31, 2019 and 2020, respectively. As at December 31, 2016, $100,000 in deferred royalty payments was recorded as long-term liabilities (September 30, 2016 - $50,000).

In January 2017, the Company received $700,000 from Sandstorm Gold Ltd. (“Sandstorm”) as part of a $1,000,000 royalty package in return for Kivalliq granting to Sandstorm a 1% NSR royalty payable on all mineral products produced for the property. The $700,000 payment received was recorded against the carrying value of the property. In connection with the $700,000 Angilak royalty, the Company paid finders’ fees of $42,000 in cash and 525,000 share purchase warrants (note 7(b)).

Baffin Gold, Nunavut

In November 2016, the Company acquired 100% interest in the Baffin Gold Property located on Baffin Island in Nunavut through the acquisition of prospecting permits from Indian and Northern Affairs Canada for $116,330.

Baker Basin, Nunavut

The Baker Basin Property is located south of the hamlet of Baker Lake, Nunavut Territory, Canada. Kivalliq acquired 100% of Pacific Ridge’s ownership interest in the Baker Basin Uranium Property through payment of 600,000 shares of Kivalliq, $55,000 in cash and a $70,000 private placement purchase of PEX units.

6. Exploration and Evaluation Assets - *Continued*

Genesis, Saskatchewan and Manitoba

On July 10, 2014, the Company signed a Mining Option Agreement with Roughrider on the Genesis Property. Roughrider can acquire up to an 85% interest in the Genesis Property in exchange for 3,939,656 common shares, $1,000,000 cash, and $5,000,000 in exploration expenditures over four years. Upon acquisition of an 85% interest in the Genesis Property by Roughrider, Kivalliq's remaining 15% interest in the project will be carried through to completion of a bankable feasibility study and a recommendation from the board of Roughrider to proceed to commercial production. Kivalliq will be project operator for at least the first two years of the agreement. Pursuant to the Mining option Agreement, Kivalliq acquired ownership of 1,969,828 common shares of Roughrider.

On December 22, 2015, the Company and Roughrider announced their mutual agreement to amend the Option Agreement for the Genesis Property such that Roughrider will pay Kivalliq the sum of $400,000 immediately in exchange for a one-year extension to all phased of the agreement, and a commensurate reduction in minimum exploration expenditures. Details of the planned amendments to the Roughrider-Kivalliq option agreement include the following key points:

1. Roughrider will pay Kivalliq the sum of $400,000 on signing of the amendment (received).
2. The final cash payment of $175,000 due August 31, 2017 to earn its 50% interest may be settled in common shares of Roughrider.
3. The Phase 1 period for Roughrider to complete its obligations to earn 50%, as per the Roughrider-Kivalliq Option Agreement is extended by a full year from August 31, 2016, to August 31, 2017, except for the payment of 1,969,828 Roughrider shares to Kivalliq which, consistent with the Option Agreement, will remain due by August 31, 2016 (received).
4. Based upon an approved budget and work plan, Kivalliq agrees to fund $400,000 of exploration work on the Genesis Property between December 2015 and April 2016 (funded). If this exploration work is not completed on or before August 31, 2016, future cash/share payments and expenditures required by Roughrider will be reduced by 15%, while the unspent portion of Kivalliq's $400,000 exploration work commitment remains as an exploration spend commitment in 2016.
5. Roughrider's minimum Phase 1 exploration expenditures are reduced by $400,000 to $2,100,000.
6. The subsequent two year period in which Roughrider, at its option, can increase its share in the Genesis Property from 50% to 85% is also extended by a year from August 31 2018 to August 31 2019.

Of the $400,000 received on signing of the amendment, $200,592 was recorded to exploration and evaluation assets to bring the Genesis carrying value down to $nil. The remaining $199,408 was recorded to recovery on exploration and evaluation asset in the statement of operations and comprehensive loss during the period ended December 31, 2015.

On August 30, 2016, the Company received 1,969,828 Roughrider shares as per the amended agreement. The shares had a fair value of $177,285 and was recorded against the property to reduce the carrying value.

The Company received notice that, effective September 30, 2016, Roughrider will not maintain its option on 15 of the 56 claims comprising the Genesis Uranium Property. The Genesis Property is now reduced to 41 claims.

6. Exploration and Evaluation Assets - *Continued*

Hatchet Lake, Saskatchewan

On February 10, 2015, Kivalliq announced it had acquired 100% of the Hatchet Lake Uranium Property ("Hatchet Lake Property") from Rio Tinto Exploration Canada Inc. and Rio Tinto Canada Uranium Corporation ("Rio Tinto") on the following terms:

- Kivalliq made a cash payment upon execution of the agreement of $220,000, subject to all claims being in good standing as of the closing date;
- Rio Tinto transferred a 100% interest in the Hatchet Lake Property to Kivalliq;
- Kivalliq granted Rio Tinto a 2% net smelter return ("NSR") royalty on the Hatchet Lake Property, with Kivalliq holding a buy-back right of 0.5% for $750,000 (in the event Kivalliq exercises its buy-down right Rio Tinto's remaining royalty will be a 1.5% NSR royalty).

The Hatchet Lake Property encompasses six claims adjacent to the north-eastern margin of the Athabasca Basin in Saskatchewan northwest of Kivalliq's Genesis Property.

In January 2017, the Company received $250,000 from Sandstorm as part of a $1,000,000 royalty package in return for Kivalliq transferring and assigning to Sandstorm the Company's 0.5% buyback right. Upon Sandstorm's exercise of this royalty buyback right, Kivalliq has agreed to grant to Sandstorm a 0.5% NSR royalty payable on all mineral products produced from the Hatchet Lake property. The $250,000 payment received was recorded against the carrying value of the property. In connection with the $250,000 Hatchet Lake royalty, the Company paid finders' fees of $15,000 in cash and 187,500 share purchase warrants (note 7(b)).

7. Share Capital

As at March 31, 2017, there were an unlimited number of common voting shares without par value authorized.

a) Private Placements

On January 16, 2017, the Company completed a non-brokered Private Placement of 25,925,000 units at $0.08 for $2,074,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into a common share at $0.15 for 60 months. The warrants attached to this issuance have been valued at $656,685 based upon the Black-Scholes Method using the following assumptions: risk-free interest rate 1.16%; expected dividend yield 0%; expected stock price volatility 78%; and an average expected life of 5 years.

In aggregate, the financing was subject to the following finders' fees: $135,560 of cash commission and other fees and 1,555,500 finder's warrants with a strike price of $0.15 exercisable for a period of five years from the date of this private placement. The Company has recorded the fair value of these finder warrants as share issuance costs. The finders' warrants attached to this issuance have been valued at $115,314 based upon the Black-Scholes Method using the assumptions noted above.

For all valuation models, the risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed warrant life. The expected volatility is based on the Company's historical prices. The expected average warrant is the average expected period to exercise, based on the historical activity patterns for warrants.

(Unaudited – Expressed in Canadian Dollars)

7. Share Capital – *Continued*

b) Warrants

The changes in warrants issued are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2016	13,241,872	$ 0.17
Issued	15,230,500	$ 0.15
Outstanding warrants, March 31, 2017	**28,472,372**	**$ 0.16**

In connection with the January 2017 private placement financing, the Company issued 12,962,500 share purchase warrants and 1,555,500 finders' warrants. Both the unit and finders' warrants are exercisable at $0.15 for five years from the date of issuance (note 7(a)).

On February 17, 2017, the Company issued a total of 712,500 finders' warrants in connection with the Sandstorm royalty packages on the Angilak and Hatchet Lake properties (note 6). The warrants are exercisable at $0.15 for a period of 5 years. The warrants have been valued at $67,441 based upon the Black-Scholes Method using the following assumptions: risk-free interest rate 1.16%; expected dividend yield 0%; expected stock price volatility 79%; and an average expected life of 5 years.

As at March 31, 2017, 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
April 20, 2017[1]	$ 0.18	5,076,066	0.30
April 20, 2017[1]	$ 0.18	288,004	0.30
April 28, 2017[1]	$ 0.18	5,234,582	0.32
April 28, 2017[1]	$ 0.18	403,220	0.32
July 6, 2018	$ 0.15	2,000,000	1.51
July 6, 2018	$ 0.15	240,000	1.51
January 16, 2022	$ 0.15	14,518,000	4.80
February 17, 2022	$ 0.15	712,500	4.89
Weighted average of exercise price and remaining contractual life	**$ 0.16**	**28,472,372**	**2.69**

[1] – *Subsequent to period end, the warrants expired unexercised.*

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.

(Unaudited – Expressed in Canadian Dollars)

7. Share Capital – *Continued*

The changes in stock options issued are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, September 30, 2015	8,875,000	$ 0.25
Cancelled	(535,000)	$ 0.35
Expired	(130,000)	$ 0.50
Outstanding options, September 30, 2016	8,210,000	$ 0.24
Expired	(1,145,000)	$ 0.32
Outstanding options, March 31, 2017	**7,065,000**	**$ 0.22**

As at March 31, 2017 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
September 25, 2017	$ 0.45	75,000	75,000	0.49
September 12, 2019	$ 0.22	6,990,000	6,990,000	2.45
Weighted average of exercise price and remaining contractual life	**$ 0.22**	**7,065,000**	**7,065,000**	**2.43**

The Company did not grant any stock options during the six months ended March 31, 2017 and did not record any share-based compensation during this period.

d) Flow-through Share Premium Liability

	March 31, 2017	September 30, 2016
Balance, beginning of period	**$ 8,193**	$ 127,535
Premium attributed to flow-through shares issued	**-**	39,858
Reduction of liability due to expenditures incurred	**(8,193)**	(159,200)
Balance, end of period	**$ -**	$ 8,193

(Unaudited – Expressed in Canadian Dollars)

8. Related Party Transactions

Key management compensation

Key management consists of the Company's directors and officers. In addition to management and consulting fees paid to these individuals, or companies controlled by these individuals, the Company provides non-cash benefits. The aggregate value of compensation with key management for the six month period ended March 31, 2017 was $126,021 (2016 - $162,271) and was comprised of the following:

		Six months March 31, 2017		Six months March 31, 2016
Wages, salaries and consulting fees	**$**	**116,066**	$	154,479
Non-cash benefits		**9,955**		7,792
Total remuneration	**$**	**126,021**	$	162,271

Related party transactions and balances not disclosed elsewhere in these financial statements are as follows:

During the six month period ended March 31, 2017, the Company reimbursed companies with common directors and key management $18,696 (2016 - $67,924) for travel and office costs incurred on behalf of the Company.

No balances were payable to related parties as at March 31, 2017 (September 30, 2016 - $nil).

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.

9. Financial Instruments

Categories of financial assets and liabilities

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The fair value of the Company's cash and cash equivalents, other receivables, GST recoverable, and accounts payable and accrued liabilities approximate carrying value which is the amount recorded on the statement of financial position due to their short term nature. The Company's marketable securities, under the fair value hierarchy are based on level one inputs.

9. *Financial Instruments - Continued*

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, other receivables, marketable securities and GST recoverable. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, marketable securities, other receivables and GST recoverable is remote as they relate to deposits and interest receivable from major financial institutions, related party balances, marketable securities held with a major brokerage firm and GST recoverable from the Government of Canada, and other balances which have been subsequently collected. The maximum credit risk as at March 31, 2017 was $3,027,640 (September 30, 2016 - $895,456).

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 March 31, 2017, Kivalliq had a cash and cash equivalents balance of $2,698,761 (September 30, 2016 – $395,719) to settle accounts payable and accrued liabilities of $44,491 (September 30, 2016 – $107,602). All of Kivalliq's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that Kivalliq 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 March 31, 2017, Kivalliq had $1,108,543 (September 30, 2016 – $257,892) 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. The Company maintains certain investments in marketable securities which are measured at fair value, being the closing price of each equity investment at the balance sheet date. We are exposed to changes in share prices which would result in gains and losses being recognized in total comprehensive loss. A 10% fluctuation in the price of the Company's marketable securities would increase/decrease comprehensive loss by $31,517 as at March 31, 2017 (September 30, 2016 - $42,852).

10. 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 exploration and evaluation assets 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 adjusts 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 six month period ended March 31, 2017. The Company is not subject to externally imposed capital requirements.

11. Commitments

As part of the agreement pertaining to the Angilak Property, Kivalliq is committed to paying annual advance royalty fees of $50,000 to NTI. NTI allowed the Company to defer the annual advance royalty payment due on December 31, 2015 and 2016 to December 31, 2019 and 2020, respectively.

12. 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 exploration and evaluation assets are located in Canada.

13. Subsequent Events

On May 5, 2017, the Company entered into an option agreement with Commander Resources Ltd. (the "optionor") to acquire a 100% interest in the Baffin Gold property, which includes 6 mineral claims (5,948 hectares) and a recently signed MEA with NTI on two blocks within Inuit Owned Lands (8,105 hectares).

Upon execution of, and pursuant to the terms of the Baffin Gold Property Option Agreement:

- Commander will receive a cash payment of C$10,000
- Commander will receive an aggregate of 500,000 Kivalliq shares within 12 months;
- Kivalliq will fulfill Commanders obligations to NTI for Year 1 under the MEA on IOL BI-35;
- Commander will receive 500,000 Kivalliq shares at a Bankable Feasibility Study;
- Commander will receive a cash payment up to $6 million upon commencement of Commercial Production;
- Commander will retain a 0.25% to 0.5% NSR royalty on Commander's Baffin Gold Property optioned lands;
- As part of a data purchase agreement, Kivalliq will grant Commander a 0.25% NSR royalty on Kivalliq's Baffin mineral tenures adjacent to Commander's Baffin Gold Property optioned lands; and
- Terms of the Baffin Gold Property Option Agreement may be adjusted up until the date of any first royalty payment to reflect the possible impact of any past commercial agreements or interests.

13. Subsequent Events - *Continued*

Terms of MEA's on Inuit Owned Land with Nunavut Tunngavik Inc.

Three parcels within Kivalliq's Baffin Gold Property are subject to Mineral Exploration Agreements (MEA's) with NTI, granting exclusive rights to explore for, develop and mine minerals on approximately 72,638 hectares of IOL parcel BI-35 on Baffin Island in the Qikiqtani Region of Nunavut.

Under terms of the MEA's on IOL RI-35, NTI will receive:

- Annual fees and exploration work commitments;
- $1 million and $5.5 million cash payments upon demonstrating NI 43-101 compliant Measured Resources of 1 million and 5 million ounces gold respectively;
- $3 million and $5 million cash payments with the commencement of a Feasibility Study and at Commercial Production respectively;
- $50,000 annual advanced royalty payments after both a Measured Resource of 1 million ounces gold and a positive Feasibility Study is attained; and
- At Commercial Production, an underlying 12% net profits royalty payable on exploration areas (deductions not to exceed 70% of gross revenues)

Subsequent to period end, 11,001,872 warrants expired unexercised.