

**KIVALLIQ ENERGY CORPORATION**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2014**

**Canadian Dollars**

**Unaudited – Prepared by Management**



## **Notice of Non-review of Condensed Interim Financial Statements**

The attached condensed interim financial statements for the three and six month periods ended March 31, 2014 and 2013 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 Statements of Financial Positions**

*(Expressed in Canadian Dollars)*  
*Unaudited – Prepared by Management*

<b>ASSETS</b>	<b>Notes</b>	<b>As at March 31, 2014</b>	<b>As at September 30, 2013</b>
<b>Current</b>			
Cash and cash equivalents		\$ 1,446,331	\$ 2,964,879
Marketable securities	3	74,822	-
Other receivables		4,554	34,507
GST recoverable		26,855	52,087
Prepaid expenses		146,601	266,843
		<b>1,699,163</b>	<b>3,318,316</b>
<b>Equipment</b>	<b>4</b>	<b>575,773</b>	<b>644,019</b>
<b>Exploration and Evaluation Assets</b> <i>(Schedule)</i>	<b>5</b>	<b>53,925,974</b>	<b>52,995,192</b>
		<b>\$ 56,200,910</b>	<b>\$ 56,957,527</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 300,532	\$ 352,750
<b>Deferred Tax Liability</b>		<b>3,491,991</b>	<b>3,786,216</b>
		<b>3,792,523</b>	<b>4,138,966</b>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Share Capital</b>	<b>6</b>	<b>57,066,304</b>	<b>56,671,834</b>
<b>Contributed Surplus</b>		<b>8,687,212</b>	<b>8,727,682</b>
<b>Accumulated Other Comprehensive Loss</b>	<b>3</b>	<b>4,822</b>	<b>-</b>
<b>Deficit</b>		<b>( 13,349,951 )</b>	<b>( 12,580,955 )</b>
		<b>52,408,387</b>	<b>52,818,561</b>
		<b>\$ 56,200,910</b>	<b>\$ 56,957,527</b>

Nature of Operations and Going Concern *(Note 1)*  
 Commitments *(Notes 5 and 10)*  
 Subsequent Events *(Notes 6 and 12)*

APPROVED ON MAY 29, 2014 ON BEHALF OF THE BOARD:

"James Paterson", CEO, Director

"John Robins", Director

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Condensed Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	Notes	Three month periods ended March 31		Six month periods ended March 31	
		2014	2013	2014	2013
<b>Expenses</b>					
Amortization and depreciation	4	\$ 34,122	\$ 41,377	\$ 68,246	\$ 81,081
Bank charges and interest		690	596	1,166	874
Investor relations		12,629	50,552	26,744	116,790
Listing and filing fees		10,632	13,748	12,157	14,101
Office and sundry		60,875	49,788	117,077	97,225
Professional fees		7,228	26,702	71,062	58,622
Salaries and consulting fees		240,340	195,547	670,885	450,341
Transfer agent fees		3,528	6,310	8,008	8,003
Travel and conference		65,801	60,665	105,777	113,130
<b>Loss before the undernoted</b>		<b>( 435,845 )</b>	<b>( 445,285 )</b>	<b>( 1,081,122 )</b>	<b>( 940,167 )</b>
<b>Other income (expenses)</b>					
Interest		9,719	13,996	18,093	32,984
Loss on foreign exchange		( 169 )	( 740 )	( 192 )	( 1,371 )
<b>Loss before income taxes</b>		<b>( 426,295 )</b>	<b>( 432,029 )</b>	<b>( 1,063,221 )</b>	<b>( 908,554 )</b>
<b>Deferred tax recovery</b>		<b>112,490</b>	<b>229,757</b>	<b>294,225</b>	<b>439,306</b>
<b>Loss for the period</b>		<b>( 313,805 )</b>	<b>( 202,272 )</b>	<b>( 768,996 )</b>	<b>( 469,248 )</b>
<b>Change in fair value of marketable securities</b>	3	<b>32,822</b>	-	<b>4,822</b>	-
<b>Total comprehensive loss for the period</b>		<b>( 280,983 )</b>	-	<b>( 764,174 )</b>	-
<b>Basic and diluted loss per common share</b>		<b>\$ ( 0.00 )</b>	<b>\$ ( 0.00 )</b>	<b>\$ ( 0.00 )</b>	<b>\$ ( 0.00 )</b>
<b>Weighted average number of common shares outstanding</b>		<b>191,027,703</b>	<b>173,900,592</b>	<b>190,717,483</b>	<b>173,777,821</b>

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

**Kivalliq Energy Corporation**  
*(An Exploration Stage Company)*  
**Condensed Statements of Changes in Shareholders' Equity**

*(Expressed in Canadian Dollars)*  
*Unaudited – Prepared by Management*

	Share Capital		Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number of shares	Amount				
Balance, September 30, 2012	173,348,370	\$ 53,080,461	\$7,801,902	\$(11,496,203)	-	\$ 49,386,160
Issued						
Private placement - shares and warrants (note 6 (a))	15,149,333	3,588,878	955,922	-	-	4,544,800
Exercise of options	570,000	93,000	-	-	-	93,000
Fair value of options exercised	-	30,142	(30,142)	-	-	-
Share issuance costs - cash	-	(130,508)	(34,762)	-	-	(165,270)
Share issuance costs - w warrants	-	(34,762)	34,762	-	-	-
Tax benefit on share issuance costs	-	44,623	-	-	-	44,623
Loss for the year	-	-	-	(1,084,752)	-	(1,084,752)
Balance, September 31, 2013	189,067,703	\$ 56,671,834	\$8,727,682	\$(12,580,955)	-	\$ 52,818,561
Issued						
Share issuance - property acquisition	600,000	150,000	-	-	-	150,000
Exercise of options	1,360,000	204,000	-	-	-	204,000
Fair value of options exercised	-	40,470	(40,470)	-	-	-
Fair value adjustment on marketable securities	-	-	-	-	4,822	4,822
Loss for the period	-	-	-	(768,996)	-	(768,996)
Balance, March 31, 2014	191,027,703	\$ 57,066,304	\$8,687,212	\$(13,349,951)	\$ 4,822	\$ 52,408,387

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

**Kivalliq Energy Corporation**  
*(An Exploration Stage Company)*  
**Condensed Statements of Cash Flows**

*(Expressed in Canadian Dollars)*

*Unaudited – Prepared by Management*

	Three month periods ended March 31		Six month periods ended March 31	
	2014	2013	2014	2013
<b>Cash Flows from (used in) Operating Activities</b>				
Net loss for the period	\$ ( 313,805 )	\$ ( 202,272 )	\$ ( 768,996 )	\$ ( 469,248 )
Adjustments for:	-	-	-	-
Amortization and depreciation	34,122	41,377	68,246	81,081
Deferred tax recovery	( 112,490 )	( 229,757 )	( 294,225 )	( 439,306 )
Interest income	( 9,719 )	( 13,996 )	( 18,093 )	( 32,984 )
Changes in non-cash working capital:				
Other receivables	8,906	2,049	29,953	22,693
GST recoverable	( 422 )	377,545	25,232	275,606
Prepaid expenses	23,760	23,023	120,242	( 4,244 )
Accounts payable and accrued liabilities	( 19,006 )	( 22,293 )	( 50,357 )	39,277
	( 388,654 )	( 24,324 )	( 887,998 )	( 527,125 )
Interest received	16,383	71,893	18,093	73,965
	( 372,271 )	47,569	( 869,905 )	( 453,160 )
<b>Cash Flows used in Investing Activities</b>				
Exploration and evaluation assets	( 386,124 )	( 1,001,727 )	( 782,643 )	( 2,853,128 )
Equipment and intangible assets	-	( 33,459 )	-	( 64,551 )
Marketable Securities	-	-	( 70,000 )	-
	( 386,124 )	( 1,035,186 )	( 852,643 )	( 2,917,679 )
<b>Cash Flows from Financing Activities</b>				
Issuance of share capital, net of issuance costs	-	2,001,500	204,000	2,091,500
<b>Net increase (decrease) in cash and cash equivalents</b>				
	( 758,395 )	1,013,883	( 1,518,548 )	( 1,279,339 )
Cash and cash equivalents - Beginning of Period	2,204,726	4,370,320	2,964,879	6,663,542
<b>Cash and cash equivalents - End of Period</b>	<b>\$ 1,446,331</b>	<b>\$ 5,384,203</b>	<b>\$ 1,446,331</b>	<b>\$ 5,384,203</b>

<b>Supplemental Schedule of Non-Cash Investing Activities</b>	<b>March 31, 2014</b>	September 30, 2013
Exploration and evaluation expenditures included in account payable	\$ 293,955	\$ 295,816

- 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**  
*(Expressed in Canadian Dollars)*  
*Unaudited – Prepared by Management*

	For the Six Month Period Ended March 31, 2014			For the year ended September 30, 2013
	Acquisition Costs	Deferred Exploration Costs	Total	Total
<b>Mineral Interests</b>				
<i><b>Angilak, Nunavut</b></i>				
Land Administration	\$ 52,600	\$ 26,434	\$ 79,034	\$ 221,936
Air Support and Transportation	-	6,312	6,312	1,416,733
Drilling	-	-	-	350,092
Field and General Operations	-	32,743	32,743	712,982
Field Contractors and Consultants	-	207,167	207,167	1,155,850
Fuel	-	-	-	407,598
Laboratory Costs	-	(4,329)	(4,329)	507,123
Salaries and Wages	-	64,840	64,840	953,735
Travel and Accommodation (Project)	-	2,046	2,046	271,143
<i><b>Baker Lake</b></i>				
Land Administration	205,000	3,016	208,016	-
Field Contractors and Consultants	-	12,704	12,704	-
Salaries and Wages	-	59,863	59,863	-
<i><b>Genesis</b></i>				
Staking	119,257	-	119,257	-
Field and General Operations	-	532	532	-
Field Contractors and Consultants	-	59,990	59,990	-
Travel and Accommodation (Project)	-	839	839	-
Salaries and Wages	-	81,768	81,768	-
<b>Exploration and Evaluation Assets for the Period</b>				
	376,857	553,925	930,782	5,997,192
<b>Balance, Beginning of the Period</b>				
	1,226,378	51,768,814	52,995,192	46,998,000
<b>Balance, End of the Period</b>				
	\$ 1,603,235	\$ 52,322,739	\$ 53,925,974	\$52,995,192

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

# **Kivalliq Energy Corporation**

*(An Exploration Stage Company)*

## **Notes to Condensed Interim Financial Statements**

**For the three and six month periods ended March 31, 2014 and 2013**

*(Expressed in Canadian Dollars)*

*Unaudited – Prepared by Management*

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### **1. Nature of Operations and Going Concern**

Kivalliq Energy Corporation (“Kivalliq” or the “Company”) was incorporated as a wholly owned subsidiary of Kaminak Gold Corporation (“Kaminak”) on February 13, 2008 as 0816479 BC Ltd. under British Columbia’s Company Act. Effective February 20, 2008, 0816479 BC Ltd. changed its name to Kivalliq Energy Corp. The Company is an exploration stage company focusing on the acquisition, exploration and development of resource properties. The Company’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 (Angilak, Baker Lake and Washburn). On July 7, 2008, after completion of its private placements, the Company’s shares became publicly trading on the TSX Venture Exchange under the symbol “KIV”.

Long-term continuance of the Company’s operations is dependent upon achieving profitable operations and obtaining additional equity or debt financing. The recoverability of the carrying values of the Company’s exploration and evaluation assets 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 these properties.

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.



# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 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, 2013.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of May 29, 2014, the date the Board of Directors approved the statements.

The condensed interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended September 30, 2013.

### 3. Marketable Securities and Other Comprehensive Loss

	March 31, 2014		September 30, 2013	
	Market Value	Cost	Market Value	Cost
Common shares and warrants of public companies	\$74,822	\$70,000	\$-	\$-

Other Comprehensive Gain	
Balance, September 30, 2013	-
Unrealized gain on available-for-sale securities	4,822
<b>Balance, March 31, 2014</b>	<b>\$ 4,822</b>

On October 15, 2013 the Company announced a completed private placement purchase of \$70,000 in Pacific Ridge Exploration Ltd (TSX-V: PEX) units as part of the acquisition of the Baker Basin Uranium Property from Pacific Ridge Exploration Ltd. (See note 6, Exploration and Evaluation Assets.)

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 4. Equipment

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at September 30, 2013	\$ 31,595	\$ 29,827	\$ 937,263	\$ 58,513	\$ 1,057,198
Current period additions	-	-	-	-	-
Cost at March 31, 2014	31,595	29,827	937,263	58,513	1,057,198
Accumulated depreciation at September 30, 2013	12,910	14,668	360,068	25,533	413,179
Current period depreciation	1,869	2,274	57,720	6,383	68,246
Accumulated depreciation at March 31, 2014	14,779	16,942	417,788	31,916	481,425
Net book value at March 31, 2014	\$ 16,816	\$ 12,885	\$ 519,475	\$ 26,597	\$ 575,773
	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at September 30, 2012	\$ 31,595	\$ 20,107	\$ 874,362	\$ 58,513	\$ 984,577
Current period additions	-	9,720	62,901	-	72,621
Cost at September 30, 2013	31,595	29,827	937,263	58,513	1,057,198
Accumulated depreciation at September 30, 2012	8,240	10,136	217,757	12,766	248,899
Current period depreciation	4,670	4,532	142,311	12,767	164,280
Accumulated depreciation at September 30, 2013	12,910	14,668	360,068	25,533	413,179
Net book value at September 30, 2013	\$ 18,685	\$ 15,159	\$ 577,195	\$ 32,980	\$ 644,019

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 5. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	Cumulative as at March 31, 2014	Cumulative as at Sept 30, 2013
Angilak, Nunavut	\$1,278,978	\$52,104,027	<b>\$53,383,005</b>	\$52,995,192
Baker Basin, Nunavut	\$205,000	\$75,583	<b>\$280,583</b>	-
Genesis Property, Saskatchewan	\$119,257	\$143,129	<b>\$262,386</b>	-
Total	\$1,603,235	\$52,322,739	<b>\$53,925,974</b>	\$52,995,192

#### General

The Company holds the Angilak Property and the Baker Basin Property in Nunavut Territory, Canada and the Genesis Property in the Province of Saskatchewan, Canada.

#### Angilak, Nunavut

The Angilak Property was acquired from Kaminak, a related party, through the reorganization transaction (Note 1). The Angilak Property is comprised of 304,257.26 acres in a central Inuit Owned Land parcel surrounded by 125 adjacent and contiguous mineral claims on Federal Crown lands in Nunavut.

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

In order to keep the 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 advanced royalty payments to NTI in the sum of \$50,000 annually (2008 – 2013 paid).

## **Kivalliq Energy Corporation**

*(An Exploration Stage Company)*

### **Notes to Condensed Interim Financial Statements**

**For the three and six month periods ended March 31, 2014 and 2013**

*(Expressed in Canadian Dollars)*

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#### **5. Exploration and Evaluation Assets - Continued**

##### ***Baker Basin, Nunavut***

On October 15, 2013, the Company announced the acquisition of the Baker Basin Uranium Property in Nunavut Territory through a transaction with Pacific Ridge Exploration Ltd (TSX-V: PEX).

The Baker Basin Property is comprised of 94 mineral claims comprising 229,783.4 acres (92,990 hectares) of crown lands in Nunavut. 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.

##### ***Genesis, Saskatchewan***

On January 13, 2014, the Company announced the acquisition of the 100% owned "Genesis Property." Northeast of Saskatchewan's Athabasca Basin and along the prospective Western Wollaston Tectonic Domain, The Genesis Property commences 25 kilometers northeast of the Eagle Point uranium mine and the Rabbit Lake mill operated by Cameco Corporation and extends 90 kilometers to the northeast along this prospective geological and structural domain to the Manitoba border. The Genesis Property is comprised of 46 claims totaling 491,154 acres (198,763 ha). Claims are in good standing for a 2 year period from the date of staking. To advance the claims beyond the second year anniversary date, the Province of Saskatchewan requires annual exploration expenditures of \$15 per hectare. To advance the claims beyond the tenth year anniversary date, the Province of Saskatchewan requires annual exploration expenditures of \$25 per hectare.

#### **6. Share Capital**

As at March 31, 2014, there were an unlimited number of common voting shares without par value authorized.

As at March 31, 2014, there were nil (September 30, 2013 – nil) common shares held in escrow.

##### **a) Private Placements**

On October 14, 2013, Kivalliq acquired a uranium exploration property in the prospective Baker Lake Basin of Nunavut Territory, Canada. As part of the purchase agreement, the Company issued 600,000 common shares at a price of \$0.25 per share.

On April 4, 2013, Kivalliq closed a non-brokered private placement of 15,149,333 units at a price of \$0.30 per unit for total gross proceeds of \$4,544,800. Each unit consisted of one common share and one whole warrant. Each whole warrant will allow the holder to acquire an additional common share of Kivalliq at a price of \$0.50 per share for a period of two years following the date of closing.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

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### 6. Share Capital – Continued

#### a) Private Placements - Continued

The warrants attached to this issuance have been valued at \$955,922 based upon the average of the residual method and the Black-Scholes Method using the following assumptions noted below.

Risk-free interest rate	1.02%
Expected dividend yield	0%
Share price	\$0.29
Expected stock price volatility	78%
Average expected warrant life	2 years

In connection with this private placement Kivalliq issued 550,900 finder warrants exercisable at a price of \$0.50 per common share for a period of two years from the date of this private placement. Finder's fees consisted of cash payments of \$165,270 in commissions. Kivalliq has recorded the fair value of these finder warrants as share issuance costs. The finder warrants attached to this issuance have been valued at \$44,021 based upon the Black-Scholes valuation model using the following assumptions noted below.

Risk-free interest rate	1.02%
Expected dividend yield	0%
Share price	\$0.29
Expected stock price volatility	78%
Average expected warrant life	2 years

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.

#### b) Warrants

Details as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2012	2,398,994	\$0.54
Issued	15,700,233	\$0.50
Expired	(679,008)	\$0.72
Outstanding warrants, September 30, 2013	17,420,219	\$0.50
Expired	(326,203)	\$0.52
<b>Outstanding warrants, March 31, 2014</b>	<b>17,094,016</b>	<b>\$0.50</b>

## Kivalliq Energy Corporation

(An Exploration Stage Company)

### Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

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#### 6. Share Capital – Continued

##### b) Warrants – Continued

At March 31, 2014, 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
May 29, 2014	\$0.45	1,393,783	0.16
April 4, 2015	\$0.50	15,149,333	1.01
April 4, 2015	\$0.50	550,900	1.01
<b>Weighted average exercise price and remaining contractual life</b>	<b>\$0.50</b>	<b>17,094,016</b>	<b>0.94</b>

\*Subsequent to March 31, 2014, 1,393,783 warrants were expired/cancelled without exercise.

##### 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.

The changes in stock options issued are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding options, September 30, 2012	16,980,000	\$0.43
Exercised	(570,000)	0.16
Cancelled	(2,260,000)	0.46
Outstanding options, September 30, 2013	14,150,000	\$0.44
Exercised	(1,360,000)	\$0.15
Cancelled	(175,000)	\$0.34
<b>Outstanding options, March 31, 2014</b>	<b>12,615,000</b>	<b>\$0.47</b>

## Kivalliq Energy Corporation

(An Exploration Stage Company)

### Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

#### 6. Share Capital – Continued

##### c) Stock Options – Continued

At March 31, 2014 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
August 11, 2014	\$0.25	150,000	150,000	.36
January 29, 2015*	\$0.30	220,000	220,000	.83
April 22, 2015	\$0.45	740,000	740,000	1.06
September 8, 2015	\$0.40	20,000	20,000	1.44
October 19, 2015	\$0.50	2,205,000	2,205,000	1.55
January 19, 2017	\$0.50	2,900,000	2,900,000	2.81
January 25, 2017*	\$0.50	1,825,000	1,825,000	2.82
September 25, 2017	\$0.45	4,555,000	4,555,000	3.49
<b>Weighted average of exercise price and remaining contractual life</b>	<b>\$0.47</b>	<b>12,615,000</b>	<b>12,615,000</b>	<b>2.91</b>

\*Subsequent to March 31, 2014, 350,000 options were expired/cancelled without exercise.

The Company did not grant any stock options during the six month period ended March 31, 2014 and during the year ended September 30, 2013.

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/option life. The expected volatility is based on the Company's historical prices. The expected average option life is the average expected period to exercise, based on the historical activity patterns for options. The expected average warrant life is estimated to be the life of the warrant. Expected forfeitures are based on historical forfeitures of the Company's options.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

For the three and six month periods ended March 31, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 7. 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, 2014 was \$412,363 (2013 - \$425,432) and was comprised of the following:

	Six month period ended March 31, 2014		Six month period ended March 31, 2013	
Wages, salaries and consulting fees	\$	394,056	\$	409,579
Non-cash benefits		18,307		15,853
Total remuneration	\$	412,363	\$	425,432

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

During the six month period ended March 31, 2014, the Company reimbursed \$162,240 (2013 - \$254,945) to recover the direct costs of rent, salaries, and office and administration expenses incurred by Aurora Mineral Resource Group; a company controlled by John Robins and James Paterson.

During the six month period ended March 31, 2014, the Company reimbursed companies with common directors and key management \$96,843 (2013 - \$30,863) for staking, travel and office costs incurred on behalf of the Company.

The balance receivable from related parties at March 31, 2014 was \$nil (September 30, 2013 - \$6,875).

The balance prepaid to related parties at March 31, 2014 was \$93,938 (September 30, 2013 - \$175,821). These balances are recorded on the statement of financial position under prepaid expenses.

The balance payable to related parties at March 31, 2014 was \$11,816 (September 30, 2013 - \$15,716) and such payables are unsecured, non-interest bearing and are expected to be repaid under normal trade terms. These balances are recorded on the statement of financial position under accounts payable and accrued liabilities

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



## **Kivalliq Energy Corporation**

*(An Exploration Stage Company)*

### **Notes to Condensed Interim Financial Statements**

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## **8. Financial Instruments**

### **Categories of financial assets and liabilities**

The fair value of the Company's cash and cash equivalents, marketable securities, 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.

#### *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 and GST recoverable. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, other receivables and GST recoverable is remote as they relate to deposits and interest receivable from major financial institutions, related party balances, GST recoverable from the Government of Canada, and other balances which have been subsequently collected. The maximum credit risk as at March 31, 2014 was \$1,477,740 (September 30, 2013 - \$3,051,473).

#### *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, 2014, Kivalliq had a cash and cash equivalents balance of \$1,446,331 (September 30, 2013 - \$2,964,879) to settle accounts payable and accrued liabilities of \$300,532 (September 30, 2013 - \$352,750). 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, 2014 Kivalliq had \$1,274,606 (September 30, 2013 - \$2,604,173) in term deposits.

##### **(b) Foreign currency risk**

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

# Kivalliq Energy Corporation

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### 8. Financial Instruments - Continued

#### (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. The Company holds 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. 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.

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

Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met. There were no changes in the Company's approach to capital management during the six month period ended March 31, 2014. The Company is not subject to externally imposed capital requirements.

### 10. Commitments

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

Fiscal 2014	15,813
Fiscal 2015	35,747
Fiscal 2016	20,852
<u>Total Commitments</u>	<u>\$ 72,412</u>

### 11. Segment Information

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

# **Kivalliq Energy Corporation**

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## **Notes to Condensed Interim Financial Statements**

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### **12. Subsequent Events**

On May 21, 2014, the Company announced the signing of a Letter of Intent setting out the terms of a proposed transaction between Kivalliq and Westham Resources Corp. (“WHR”) a Vancouver, Canada, based capital pool company, related to Kivalliq’s Genesis Property in northeastern Saskatchewan, Canada. Subject to conditions to be set forth in a Definitive Agreement between Kivalliq and WHR, WHR can acquire 85% interest in Kivalliq’s Genesis Property in exchange for 20% of the issued and outstanding shares of WHR on a post-transaction/post-financing basis, \$1 million in cash payments, and \$5 million in exploration expenditures over four years. Upon acquisition of an 85% interest in Genesis by WHR, 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 WHR to proceed to commercial production. Kivalliq will be project operator for at least the first two years of the agreement.