

# **KIVALLIQ ENERGY CORPORATION**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED**

**DECEMBER 31, 2013**

**(UNAUDITED)**



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

The attached condensed interim financial statements for the three-month periods ended December 31, 2013 and 2012 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)*  
**Statements of Financial Position**

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

<b>ASSETS</b>	<b>Notes</b>	<b>As at December 31, 2013</b>	<b>As at September 30, 2013</b>
<b>Current</b>			
Cash and cash equivalents		\$ 2,204,726	\$ 2,964,879
Marketable securities	3	42,000	-
Other receivables		20,124	34,507
GST/HST recoverable		26,433	52,087
Prepaid expenses		170,361	266,843
		<b>2,463,644</b>	<b>3,318,316</b>
<b>Equipment</b>	<b>4</b>	<b>609,895</b>	<b>644,019</b>
<b>Intangible Assets</b>	<b>5</b>	<b>-</b>	<b>-</b>
<b>Exploration and Evaluation Assets</b> <i>(Schedule)</i>	<b>6</b>	<b>53,555,149</b>	<b>52,995,192</b>
		<b>\$ 56,628,688</b>	<b>\$ 56,957,527</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 334,837	\$ 352,750
<b>Deferred Tax Liability</b>		<b>3,604,481</b>	<b>3,786,216</b>
		<b>3,939,318</b>	<b>4,138,966</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share Capital	7	57,066,304	56,671,834
Contributed Surplus		8,687,212	8,727,682
Accumulated Other Comprehensive Loss	3	( 28,000 )	-
Deficit		( 13,036,146 )	( 12,580,955 )
		<b>52,689,370</b>	<b>52,818,561</b>
		<b>\$ 56,628,688</b>	<b>\$ 56,957,527</b>

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

APPROVED ON FEBRUARY 25, 2014 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)***Statements of Operations and Comprehensive Loss****For the Three Month Period Ended December 31***(Expressed in Canadian Dollars)**Unaudited – Prepared by Management*

	Notes	2013	2012
<b>Expenses</b>			
Amortization and depreciation	\$	34,124	\$ 39,704
Bank charges and interest		476	278
Investor relations		14,115	43,697
Listing and filing fees		1,525	353
Office and sundry		56,202	47,437
Professional fees		63,834	31,920
Salaries and consulting fees		430,545	277,335
Transfer agent fees		4,480	1,693
Travel and conference		39,976	52,465
<b>Loss before the undernoted</b>		<b>( 645,277 )</b>	<b>( 494,882 )</b>
<b>Other income (expenses)</b>			
Interest		8,374	18,988
Loss on foreign exchange		( 23 )	( 631 )
<b>Loss before income taxes</b>		<b>( 636,926 )</b>	<b>( 476,525 )</b>
<b>Deferred tax recovery (expense)</b>		<b>181,735</b>	<b>209,549</b>
<b>Loss for the period</b>		<b>( 455,191 )</b>	<b>( 266,976 )</b>
<b>Change in fair value of marketable securities</b>		<b>( 28,000 )</b>	<b>-</b>
<b>Total comprehensive loss for the period</b>	\$	<b>( 483,191 )</b>	\$ <b>( 266,976 )</b>
<b>Basic and diluted loss per common share</b>	\$	<b>( 0.00 )</b>	\$ <b>( 0.00 )</b>
<b>Weighted average number of common shares outstanding</b>		<b>190,414,007</b>	<b>173,657,718</b>

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Statement of Changes in Shareholders' Equity

For the Three Month Period Ended December 31, 2013

(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 - 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 30, 2013	189,067,703	\$ 56,671,834	\$8,727,682	\$(12,580,955)	\$ -	\$ 52,818,561
Issued						
Private placement - asset purchase	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	-	-	-	-	(28,000)	(28,000)
Loss for the period	-	-	-	(455,191)	-	(455,191)
Balance, December 31, 2013	191,027,703	\$ 57,066,304	\$8,687,212	\$(13,036,146)	\$ (28,000)	\$ 52,689,370

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Statement of Cash Flows

For the Three Month Period Ended December 31

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	2013	2012
<b>Cash Flows used in Operating Activities</b>		
Net loss for the period	\$ ( 455,191 )	\$ ( 266,976 )
Adjustments for:		
Amortization and depreciation	34,124	39,704
Deferred tax expense (recovery)	( 181,735 )	( 209,549 )
Interest income	( 8,374 )	( 18,988 )
Changes in non-cash working capital:		
Other receivables	21,047	20,644
HST recoverable	25,654	( 101,939 )
Prepaid expenses	96,482	( 27,267 )
Accounts payable and accrued liabilities	( 31,351 )	61,570
	( 499,344 )	( 502,801 )
Interest received	1,710	2,072
	( 497,634 )	( 500,729 )
<b>Cash Flows used in Investing Activities</b>		
Exploration and evaluation assets	( 546,519 )	( 1,851,401 )
Equipment and intangible assets	-	( 31,092 )
Marketable Securities	( 70,000 )	-
	( 616,519 )	( 1,882,493 )
<b>Cash Flows from Financing Activities</b>		
Issuance of share capital, net of issuance costs	354,000	90,000
<b>Net Decrease in Cash and Cash Equivalents</b>	( 760,153 )	( 2,293,222 )
Cash and Cash Equivalents - Beginning of Period	2,964,879	6,663,542
<b>Cash and Cash Equivalents - End of Period</b>	\$ 2,204,726	\$ 4,370,320

### Supplemental Schedule of Non-Cash Investing Activities

Exploration and evaluation expenditures included in accounts payable	233,999	220,561
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- 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 Three Month Period Ended December 31, 2013			For the year ended September 30, 2013
	Acquisition Costs	Deferred Exploration Costs	Total	Total
<b>Mineral Interests</b>				
<b>Angilak, Nunavut</b>				
Land Administration	\$ 52,600	\$ -	\$ 52,600	\$ 221,936
Air Support and Transportation	-	5,405	5,405	1,416,733
Drilling	-	-	-	350,092
Field and General Operations	-	16,409	16,409	712,982
Field Contractors and Consultants	-	111,831	111,831	1,155,850
Fuel	-	-	-	407,598
Laboratory Costs	-	(15,116)	(15,116)	507,123
Salaries and Wages	-	16,044	16,044	953,735
Travel and Accommodation (Project)	-	1,995	1,995	271,143
<b>Baker Lake</b>				
Land Administration	205,000	-	205,000	-
Field Contractors and Consultants	-	12,704	12,704	-
Salaries and Wages	-	55,935	55,935	-
<b>Genesis</b>				
Staking	70,037	-	70,037	-
Field Contractors and Consultants	-	3,188	3,188	-
Salaries and Wages	-	23,925	23,925	-
<b>Exploration and Evaluation Assets for the Period and the Year</b>				
	327,637	232,320	559,957	5,997,192
Balance, Beginning of the Year	1,226,378	51,768,814	52,995,192	46,998,000
<b>Balance, End of the Year</b>	<b>\$ 1,554,015</b>	<b>\$ 52,001,134</b>	<b>\$53,555,149</b>	<b>\$52,995,192</b>

- 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**

**December 31, 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

December 31, 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 February 25, 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.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other categories. Available-for-sale assets are initially recorded at fair value plus transaction costs, and are subsequently carried at fair value. All unrealized gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognized directly in other comprehensive income, except for unrealized foreign exchange gains or losses on monetary financial assets and impairment losses which are recognized in the statement of income. Any reversal of a previously recognized impairment loss on a non-monetary asset is recognized directly in other comprehensive income. Realized gains and losses from the derecognition of available-for-sale assets are recognized in the consolidated statement of income in the period derecognized with any unrealized gains or losses being recycled from other comprehensive income.

### 3. Marketable Securities and Other Comprehensive Loss

	December 31, 2013		September 30, 2013	
	Market Value	Cost	Market Value	Cost
Common shares in public companies	\$42,000	\$70,000	\$-	\$-

	Other Comprehensive Loss
Balance, September 30, 2013	-
Unrealized loss on available-for-sale securities	28,000
<b>Balance, December 31, 2013</b>	<b>\$ 28,000</b>

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 3. Marketable Securities and Other Comprehensive Loss - Continued

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 marketable securities. 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.

### 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 December 31, 2013	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	935	1,138	28,860	3,191	34,124
Accumulated depreciation at December 31, 2013	13,845	15,806	388,928	28,724	447,303
Net book value at December 31, 2013	\$ 17,750	\$ 14,021	\$ 548,335	\$ 29,789	\$ 609,895
	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

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 5. Intangible Assets

	Computer Software		Computer Softw are
<b>Cost at December 31, 2013</b>	<b>29,981</b>	Cost at September 30, 2013	29,981
<b>Accumulated depreciation at September 30, 2013</b>	<b>29,981</b>	Accumulated depreciation at September 30, 2012	29,133
<b>Current period retirements</b>	-	Current period retirements	-
<b>Current period depreciation</b>	-	Current period depreciation	848
<b>Accumulated depreciation at December 31, 2013</b>	<b>29,981</b>	Accumulated depreciation at September 30, 2013	29,981
<b>Net book value at December 31, 2013</b>	<b>\$ -</b>	Net book value at September 30, 2013	\$ -

### 6. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	Cumulative as at Dec 31, 2013	Cumulative as at Sept 30, 2013
Angilak, Nunavut	\$1,278,978	\$51,905,382	<b>\$53,184,360</b>	\$52,995,192
Baker Basin, Nunavut	\$205,000	\$68,639	<b>\$273,639</b>	-
Genesis Property Saskatchewan	\$70,037	\$27,113	<b>\$97,150</b>	-
Total	\$1,554,015	\$52,001,134	<b>\$53,555,149</b>	\$52,995,192

#### General

The Company has 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 comprises a central Inuit Owned Land parcel surrounded by 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.

## **Kivalliq Energy Corporation**

*(An Exploration Stage Company)*

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

**December 31, 2013**

*(Expressed in Canadian Dollars)*

*Unaudited – Prepared by Management*

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

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).

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

On October 15<sup>th</sup> 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 comprises 95 mineral claims comprising 232,262 acres (93,993 hectares) of crown lands in Nunavut. Kivalliq has acquired 100% of Pacific Ridge's ownership interest in the Baker Basin Uranium Property as per the terms following: 600,000 shares KIV; \$55,000 cash payment, and; \$70,000 private placement purchase of PEX units.

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

On January 13<sup>th</sup> 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 covers 28 documented historic uranium showings and several uraniumiferous boulder trains.

Following the initial round of staking announced January 13, 2014, the Company acquired an additional ten claims through staking with the Genesis Property area. The Property currently comprises 46 claims totaling 491,153 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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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### 7. Share Capital

As at December 31, 2013, there were an unlimited number of common voting shares without par value authorized.

As at December 31 2013, 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.

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

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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.

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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

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On May 29, 2012, Kivalliq closed a bought deal private placement of 16,772,900 flow-through common shares at a price of \$0.50 per flow-through common share and 7,124,000 non-flow-through common shares at a price of \$0.45 per non-flow-through common share for total gross proceeds of \$11,592,250.

In connection with this private placement Kivalliq issued 1,393,783 agent warrants exercisable at a price of \$0.45 per common share for a period of two years from the date of this private placement. Finder's fees consisted of cash payments of \$685,908 in commissions and \$63,330 in advisory fees. Kivalliq has recorded the fair value of these agent warrants as share issuance costs. The agent

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 7. Share Capital – Continued

#### a) Private Placements - Continued

warrants attached to this issuance have been valued at \$253,898 based upon the Black-Scholes valuation model using the following assumptions noted below.

Risk-free interest rate	1.21%
Expected dividend yield	0%
Share price	\$0.40
Expected stock price volatility	91%
Average expected warrant life	2 years

On February 21, 2012, Kivalliq closed a non-brokered private placement of 13,127,444 common shares at a price of \$0.45 per common share, and 6,845,000 flow-through common shares at a price of \$0.52 per flow-through common share for gross proceeds of \$9,466,750.

In connection with this private placement Kivalliq issued 179,383 agent warrants exercisable at a price of \$0.50 per common share and 146,820 agent warrants exercisable at a price of \$0.55 per common share. Finder's fees consisted of cash payments of \$303,254 in commissions and \$10,884

in advisory fees. Kivalliq has recorded the fair value of these agent warrants as share issuance costs. The agent warrants attached to this issuance have been valued at \$78,680 based upon the Black-Scholes valuation model using the following assumptions noted below.

Risk-free interest rate	1.13%
Expected dividend yield	0%
Share price	\$0.50
Expected stock price volatility	93%
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
<b>Outstanding warrants, September 30, 2013 and December 31, 2013</b>	<b>17,420,219</b>	<b>\$0.50</b>

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 7. Share Capital – Continued

#### b) Warrants – Continued

At December 31, 2013, 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
February 21, 2014*	\$0.50	179,383	0.14
February 21, 2014*	\$0.55	146,820	0.14
May 29, 2014	\$0.45	1,393,783	0.41
April 4, 2015	\$0.50	15,149,333	1.26
April 4, 2015	\$0.50	550,900	1.26
<b>Weighted average exercise price and remaining contractual life</b>	<b>\$0.50</b>	<b>17,420,219</b>	<b>1.17</b>

\* Expired subsequent to December 31, 2013

#### 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	(75,000)	\$0.27
<b>Outstanding options, December 31, 2013</b>	<b>12,715,000</b>	<b>\$0.47</b>



# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 7. Share Capital - Continued

#### c) Stock Options – Continued

At December 31, 2013 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	.61
January 29, 2015*	\$0.30	270,000	270,000	1.08
April 22, 2015	\$0.45	740,000	740,000	1.31
September 8, 2015	\$0.40	20,000	20,000	1.69
October 19, 2015	\$0.50	2,205,000	2,205,000	1.80
January 19, 2017	\$0.50	2,900,000	2,900,000	3.05
January 25, 2017**	\$0.50	1,875,000	1,875,000	3.07
September 25, 2017	\$0.45	4,555,000	4,555,000	3.74
<b>Weighted average of exercise price and remaining contractual life</b>	<b>\$0.44</b>	<b>12,715,000</b>	<b>12,715,000</b>	<b>2.91</b>

\* 50,000 options cancelled subsequent to December 31, 2013

\*\* 50,000 options cancelled subsequent to December 31, 2013

The Company did not grant any stock options during the three month period ended December 31, 2013 and during the year ended September 30, 2013,

The fair value of stock options for all options issued was estimated at the grant date based on the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.00 – 1.08%
Expected dividend yield	0%
Share price	\$0.47
Expected stock price volatility	87 - 108%
Expected forfeitures	0%
Average expected option life	2.5 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/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

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

### 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 three month period ended December 31, 2013 was \$222,804 (2012 - \$302,650) and was comprised of the following:

	Three month period ended December 31, 2013		Three month period ended December 31, 2012	
<b>Wages, salaries and consulting fees</b>	\$	215,379	\$	295,006
Non-cash benefits		7,425		7,644
<b>Total remuneration</b>	\$	<b>222,804</b>	\$	<b>302,650</b>

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

During the three month period ended December 31, 2013, the Company reimbursed \$149,245 (2012 - \$116,775) of rent, salaries, and office and administration expenses incurred by a company controlled by directors of the Company.

During the three month period ended December 31, 2013, the Company reimbursed companies with common directors and key management \$9,448 (2012 - \$6,497) for travel and office costs incurred on behalf of the Company.

During the three month period ended December 31, 2013, the Company incurred expenses on behalf of companies with common directors of \$2,016 (2012 - \$4,125) for consulting and office expenses.

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

The balance prepaid to related parties at December 31, 2013 was \$96,936 (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 December 31, 2013 was \$8,400 (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

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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### 9. Financial Instruments

#### Categories of financial assets and liabilities

The fair value of the Company's cash and cash equivalents, other receivables, HST 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, marketable securities, other receivables and GST/HST recoverable. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, other receivables and HST recoverable is remote as they relate to deposits and interest receivable from major financial institutions, related party balances, HST recoverable from the Government of Canada, and other balances which have been subsequently collected. The maximum credit risk as at December 31, 2013 was \$2,293,283 (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 December 31, 2013, Kivalliq had a cash and cash equivalents balance of \$2,204,726 (September 30, 2013 - \$2,964,879) to settle accounts payable and accrued liabilities of \$334,837 (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 December 31, 2013 Kivalliq had \$2,050,350 (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.

#### (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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements

December 31, 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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### 9. Financial Instruments - Continued

#### (c) Price risk - Continued

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.

### 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 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 three month period ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

### 11. Commitments

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

Fiscal 2014	26,810
Fiscal 2015	35,747
Fiscal 2016	20,852
<u>Total Commitments</u>	<u>\$ 83,409</u>

### 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.