

KIVALLIQ ENERGY CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED JUNE 30, 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 nine month periods ended June 30, 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

ASSETS	Notes	As at June 30, 2014	As at September 30, 2013
Current			
Cash and cash equivalents		\$ 729,762	\$ 2,964,879
Marketable securities	3	60,822	-
Other receivables		16,433	34,507
GST recoverable		17,743	52,087
Prepaid expenses		205,967	266,843
		1,030,727	3,318,316
Equipment	4	541,651	644,019
Exploration and Evaluation Assets (Schedule)	5	54,314,416	52,995,192
		\$ 55,886,794	\$ 56,957,527
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 361,592	\$ 352,750
Deferred Tax Liability		3,402,095	3,786,216
		3,763,687	4,138,966
SHAREHOLDERS' EQUITY			
Share Capital	6	57,066,304	56,671,834
Contributed Surplus		8,687,212	8,727,682
Accumulated Other Comprehensive Loss	3	(9,178)	-
Deficit		(13,621,231)	(12,580,955)
		52,123,107	52,818,561
		\$ 55,886,794	\$ 56,957,527

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

APPROVED 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 Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

	Notes	Three month periods ended June 30		Nine month periods ended June 30	
		2014	2013	2014	2013
Expenses					
Amortization and depreciation	4	\$ 34,122	\$ 42,024	\$ 102,368	\$ 123,105
Bank charges and interest		551	623	1,717	1,497
Investor relations		10,833	(18,739)	37,577	98,051
Listing and filing fees		213	24,360	12,370	38,461
Office and sundry		51,739	68,510	168,816	165,735
Professional fees		11,523	21,623	82,585	80,245
Project evaluation		18,815	94,951	171,662	94,951
Salaries and consulting fees		188,552	253,306	706,590	703,647
Transfer agent fees		14,714	10,237	22,722	18,240
Travel and conference		29,332	49,234	135,109	162,364
Loss before the undernoted		(360,394)	(546,129)	(1,441,516)	(1,486,296)
Other income (expenses)					
Interest		(785)	18,368	17,308	51,352
Gain (loss) on foreign exchange		3	(1,095)	(189)	(2,466)
Loss before income taxes		(361,176)	(528,856)	(1,424,397)	(1,437,410)
Deferred tax recovery		89,896	162,469	384,121	601,775
Loss for the period		(271,280)	(366,387)	(1,040,276)	(835,635)
Change in fair value of marketable securities	3	(14,000)	-	(9,178)	-
Total comprehensive loss for the period		(285,280)	-	(1,049,454)	-
Basic and diluted loss per common share		\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding		191,027,703	188,567,395	190,820,890	178,707,679

- 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 period	-	-	-	(835,635)	-	(835,635)
Balance, June 30, 2013	189,067,703	\$ 56,671,834	\$ 8,727,682	\$ (12,331,838)	-	\$ 53,067,678
Loss for the period	-	-	-	(249,117)	-	(249,117)
Balance, September 30, 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	-	-	-	-	(9,178)	(9,178)
Loss for the period	-	-	-	(1,040,276)	-	(1,040,276)
Balance, June 30, 2014	191,027,703	\$ 57,066,304	\$ 8,687,212	\$ (13,621,231)	\$ (9,178)	\$ 52,123,107

- 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 June 30		Nine month periods ended June 30	
	2014	2013	2014	2013
Cash Flows from (used in) Operating Activities				
Net loss for the period	\$ (271,280)	\$ (366,387)	\$ (1,040,276)	\$ (835,635)
Adjustments for:				
Amortization and depreciation	34,122	42,024	102,368	123,105
Deferred tax recovery	(89,896)	(162,469)	(384,121)	(601,775)
Interest income	785	(18,368)	(17,308)	(51,352)
Changes in non-cash working capital:				
Other receivables	(39,460)	-	(9,507)	22,693
GST recoverable	9,112	(8,856)	34,344	266,750
Prepaid expenses	(59,366)	(90,740)	60,876	(94,984)
Accounts payable and accrued liabilities	18,949	(34,857)	(31,408)	4,420
	(397,034)	(639,653)	(1,285,032)	(1,166,778)
Interest received	26,796	4,587	44,889	78,552
	(370,238)	(635,066)	(1,240,143)	(1,088,226)
Cash Flows used in Investing Activities				
Exploration and evaluation assets	(346,331)	(2,727,550)	(1,128,974)	(5,580,678)
Equipment	-	(8,070)	-	(72,621)
Marketable securities	-	-	(70,000)	-
	(346,331)	(2,735,620)	(1,198,974)	(5,653,299)
Cash Flows from Financing Activities				
Issuance of share capital, net of issuance costs	-	2,381,030	204,000	4,472,530
Net decrease in cash and cash equivalents	(716,569)	(989,656)	(2,235,117)	(2,268,995)
Cash and cash equivalents - Beginning of period	1,446,331	5,384,203	2,964,879	6,663,542
Cash and cash equivalents - End of period	\$ 729,762	\$ 4,394,547	\$ 729,762	\$ 4,394,547

Supplemental Schedule of Non-Cash Investing Activities	June 30, 2014	September 30, 2013
Exploration and evaluation expenditures included in account payable	\$ 336,066	\$ 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 Nine Month Period Ended June 30, 2014			For the year ended September 30, 2013
	Acquisition Costs	Deferred Exploration Costs	Total	Total
Angilak, Nunavut				
Land Administration	\$ 52,600	\$ 63,031	\$ 115,631	\$ 221,936
Air Support and Transportation	-	(12,404)	(12,404)	1,416,733
Drilling	-	-	-	350,092
Field and General Operations	-	73,810	73,810	712,982
Field Contractors and Consultants	-	285,572	285,572	1,155,850
Fuel	-	-	-	407,598
Laboratory Costs	-	45,003	45,003	507,123
Salaries and Wages	-	121,166	121,166	953,735
Travel and Accommodation (Project)	-	19,403	19,403	271,143
Baker Lake				
Land Administration	205,000	3,016	208,016	-
Field Contractors and Consultants	-	12,704	12,704	-
Salaries and Wages	-	64,861	64,861	-
Genesis				
Staking	149,255	-	149,255	-
Air Support and Transportation	-	7,000	7,000	-
Field and General Operations	-	26,952	26,952	-
Field Contractors and Consultants	-	77,120	77,120	-
Travel and Accommodation (Project)	-	3,850	3,850	-
Salaries and Wages	-	121,285	121,285	-
Exploration and Evaluation Assets for the Period				
	406,855	912,369	1,319,224	5,997,192
Balance, Beginning of the Period				
	1,226,378	51,768,814	52,995,192	46,998,000
Balance, End of the Period				
	\$ 1,633,233	\$ 52,681,183	\$ 54,314,416	\$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 nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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 nine month periods ended June 30, 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 August 26, 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

	June 30, 2014		September 30, 2013	
	Market Value	Cost	Market Value	Cost
Common shares and warrants of public company	\$60,822	\$70,000	\$-	\$-

	Other Comprehensive Loss
Balance, September 30, 2013	-
Unrealized loss on available-for-sale securities	(9,178)
Balance, June 30, 2014	\$ (9,178)

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 5, 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 nine month periods ended June 30, 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 June 30, 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	2,803	3,411	86,579	9,575	102,368
Accumulated depreciation at June 30, 2014	15,713	18,079	446,647	35,108	515,547
Net book value at June 30, 2014	\$ 15,882	\$ 11,748	\$ 490,616	\$ 23,405	\$ 541,651
	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 nine month periods ended June 30, 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 June 30, 2014	Cumulative as at Sept 30, 2013
Angilak, Nunavut	\$1,278,978	\$52,364,395	\$53,643,373	\$52,995,192
Baker Basin, Nunavut	\$205,000	\$80,581	\$285,581	-
Genesis Property, Saskatchewan	\$149,255	\$236,207	\$385,462	-
Total	\$1,633,233	\$52,681,183	\$54,314,416	\$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 nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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.

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 Roughrider Exploration Limited ("Roughrider") (formerly Westham Resources Corp.) 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 Roughrider, Roughrider can acquire 85% interest in Kivalliq's Genesis Property in exchange for 20% of the issued and outstanding shares of Roughrider 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 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.

Subsequent to quarter-end, the Company announced that, pursuant to a Mining Option Agreement dated July 10, 2014 between Kivalliq and Roughrider, Kivalliq had acquired ownership of 1,969,828 common shares of Roughrider. As a result of this acquisition, Kivalliq owns 10% of the issued and outstanding capital of Roughrider. In order to earn the initial 50% interest in the Genesis Property, Roughrider must issue to Kivalliq an additional 1,969,828 common shares, being an additional 10% of Roughrider's issued shares, on a non-diluted basis, plus cash payments, on or before August 31, 2016 in order to earn the initial 50% interest in Genesis. The shares issued to Kivalliq are subject to a 12-month hold period.

Subsequent to quarter-end, Kivalliq announced the commencement of the 2014 exploration program on its Genesis Property. "Phase 1" of the 2014 exploration program is budgeted at \$1 million and will be executed by Kivalliq, owner and operator of the Genesis Property. The proposed program will be fully funded by Roughrider. In the nine month period ended June 30, 2014, Kivalliq has spent \$5,062 of exploration and evaluation expenses that have been subsequently reimbursed by Roughrider.

Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

6. Share Capital

As at June 30, 2014, there were an unlimited number of common voting shares without par value authorized.

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

a) Private Placements

Subsequent to year-end, Kivalliq closed a private placement of 5,172,728 units at a price of \$0.22 per unit for total gross proceeds of \$1,138,000. Each unit consisted of one flow-through common share and one-half of one common share purchase warrant. Each warrant will be exercisable into a non-flow-through common share of Kivalliq for a period of 24 months from the closing date at an exercise price of \$0.28 per common share. In aggregate, the financing was subject to the following finders' fees: \$6,600 cash commission and 15,000 finder's warrants with a strike price of \$0.28.

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

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

6. Share Capital – Continued

a) Private Placements - Continued

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	(1,719,986)	\$0.46
Outstanding warrants, June 30, 2014	15,700,233	\$0.50

At June 30, 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
April 4, 2015	\$0.50	15,149,333	0.76
April 4, 2015	\$0.50	550,900	0.76
Weighted average exercise price and remaining contractual life	\$0.50	15,700,233	0.76

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.

Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

6. Share Capital – Continued

c) Stock Options – Continued

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	(525,000)	\$0.42
Outstanding options, June 30, 2014	12,265,000	\$0.47

At June 30, 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	.12
January 29, 2015	\$0.30	220,000	220,000	.58
April 22, 2015	\$0.45	740,000	740,000	0.81
September 8, 2015	\$0.40	20,000	20,000	1.19
October 19, 2015	\$0.50	2,205,000	2,205,000	1.30
January 19, 2017	\$0.50	2,900,000	2,900,000	2.56
January 25, 2017	\$0.50	1,725,000	1,725,000	2.58
September 25, 2017	\$0.45	4,305,000	4,305,000	3.19
Weighted average of exercise price and remaining contractual life	\$0.47	12,265,000	12,265,000	2.38

*Subsequent to June 30, 2014, 150,000 options expired without exercise.

The Company did not grant any stock options during the nine month period ended June 30, 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 nine month periods ended June 30, 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 nine month period ended June 30, 2014 was \$595,518 (2013 - \$710,811) and was comprised of the following:

	Nine month period ended June 30, 2014		Nine month period ended June 30, 2013	
Wages, salaries and consulting fees	\$	568,013	\$	686,416
Non-cash benefits		27,505		24,395
Total remuneration	\$	595,518	\$	710,811

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

During the nine month period ended June 30, 2014, the Company reimbursed \$226,570 (2013 - \$430,444) 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 nine month period ended June 30, 2014, the Company reimbursed companies with common directors and key management \$114,223 (2013 - \$56,294) for staking, travel and office costs incurred on behalf of the Company.

The balance receivable from related parties at June 30, 2014 was \$9,237 (September 30, 2013 - \$6,875).

The balance prepaid to related parties at June 30, 2014 was \$87,890 (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 June 30, 2014 was \$9,741 (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

For the three and nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

8. 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.

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 June 30, 2014 was \$824,760 (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 June 30, 2014, Kivalliq had a cash and cash equivalents balance of \$729,762 (September 30, 2013 - \$2,964,879) to settle accounts payable and accrued liabilities of \$361,592 (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.

Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

8. Financial Instruments - Continued

(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 institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank. As of June 30, 2014, Kivalliq had \$442,697 (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 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 \$6,082 (September 30, 2013 - \$nil).

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 nine month period ended June 30, 2014. The Company is not subject to externally imposed capital requirements.

Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements

For the three and nine month periods ended June 30, 2014 and 2013

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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	12,444
Fiscal 2015	66,258
Fiscal 2016	38,650
Total Commitments	\$ 117,352

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.