KIVALLIQ ENERGY CORPORATION

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

Canadian Dollars

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kivalliq Energy Corporation

We have audited the accompanying financial statements of Kivalliq Energy Corporation, which comprise the statements of financial position as at September 30, 2015 and 2014 and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Kivalliq Energy Corporation as at September 30, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Kivalliq Energy Corporation's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

January 26, 2016

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian Dollars)

ASSETS	Notes		As at September 30, 2015		As at September 30, 2014
Current					
Cash and cash equivalents		$	**947,553**	$	1,067,494
Marketable securities	3		**165,888**		539,279
Other receivables	4		**180,311**		638,072
GST recoverable			**52,933**		42,811
Prepaid expenses			**128,686**		141,159
			1,475,371		2,428,815
Equipment	5		**398,851**		507,529
Exploration and Evaluation Assets (Schedule)	6		**56,189,150**		54,593,330
		$	**58,063,372**	$	57,529,674
LIABILITIES					
Current					
Accounts payable and accrued liabilities		$	**284,087**	$	789,629
Flow-through share premium liability	7		**127,535**		81,600
			411,622		871,229
Deferred Tax Liability	12		**3,478,449**		3,504,749
			3,890,071		4,375,978
SHAREHOLDERS' EQUITY					
Share Capital	7		**59,992,575**		57,925,527
Contributed Surplus			**10,381,746**		10,016,534
Accumulated Other Comprehensive Income	3		**57,385**		380,368
Deficit			**(16,258,405)**		(15,168,733)
			54,173,301		53,153,696
		$	**58,063,372**	$	57,529,674

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Notes 6 and 11)*
Subsequent Events *(Notes 6 and 7)*

APPROVED ON JANUARY 26, 2016 ON BEHALF OF THE BOARD:

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

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statements of Operations and Comprehensive Loss
For the Years Ended September 30

(Expressed in Canadian Dollars)

	Note		2015		2014
Expenses					
Amortization and depreciation	5	$	111,967	$	136,490
Bank charges and interest			1,367		2,118
Investor relations			87,174		48,456
Listing and filing fees			28,280		22,100
Office and sundry			198,057		229,119
Professional fees			50,443		78,558
Project evaluation			27,672		259,352
Salaries and consulting fees			695,577		900,736
Stock-based compensation	7		-		1,212,653
Transfer agent fees			21,008		25,953
Travel and conference			116,111		165,146
Loss before the undernoted			(1,337,656)		(3,080,681)
Other income (expenses)					
Project operator fees	6		38,873		59,820
Interest			12,311		21,160
Loss on foreign exchange			(216)		(259)
Amortization of flow-through premium liability	7		242,670		73,582
Loss before income taxes			(1,044,018)		(2,926,378)
Deferred tax (expense) recovery	12		(45,654)		338,600
Loss for the year			(1,089,672)		(2,587,778)
Change in fair value of marketable securities	3		(373,391)		439,732
Tax recovery (expense) in OCI from change in fair value of marketable securities	3		50,408		(59,364)
Total comprehensive loss for the year		$	(1,412,655)	$	(2,207,410)
Basic and diluted loss per common share		$	(0.01)	$	(0.01)
Weighted average number of common shares outstanding			205,236,431		191,907,638

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Statement of Changes in Shareholders' Equity
For the Years Ended September 30, 2015 and 2014

(Expressed in Canadian Dollars)

	Share Capital					
	Number of shares	Amount	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, September 30, 2013	189,067,703	$ 56,671,834	$ 8,727,682	$ (12,580,955)	-	$ 52,818,561
Issued						
Private placement - shares and warrants (note 7 (a))	5,172,728	1,022,046	115,954	-	-	1,138,000
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)	-	-	-
Flow-through share premium	-	(155,182)	-	-	-	(155,182)
Share issuance costs - cash	-	(9,157)	-	-	-	(9,157)
Share issuance costs - warrants	-	(715)	715	-	-	-
Stock-based compensation	-	-	1,212,653	-	-	1,212,653
Fair value adjustment on marketable securities	-	-	-	-	439,732	439,732
Tax benefit on share issuance costs	-	2,231	-	-	-	2,231
Tax expense in OCI from fair value adjustment on marketable securities in OCI	-	-	-	-	(59,364)	(59,364)
Loss for the year	-	-	-	(2,587,778)	-	(2,587,778)
Balance, September 30, 2014	196,200,431	57,925,527	10,016,534	(15,168,733)	380,368	53,153,696
Issued						
Private placement - shares and warrants (note 7 (a))	20,621,300	2,440,977	338,143	-	-	2,779,120
Flow-through share premium	-	(288,605)		-	-	(288,605)
Share issuance costs - cash	-	(79,801)	-	-	-	(79,801)
Share issuance costs - warrants	-	(27,069)	27,069	-	-	-
Tax recovery in OCI from fair value adjustment on marketable securities in OCI	-	-	-	-	50,408	50,408
Fair value adjustment on marketable securities	-	-	-	-	(373,391)	(373,391)
Tax benefit on share issuance costs	-	21,546	-	-	-	21,546
Loss for the year	-	-	-	(1,089,672)	-	(1,089,672)
Balance, September 30, 2015	**216,821,731**	**$ 59,992,575**	**$ 10,381,746**	**$ (16,258,405)**	**$ 57,385**	**$ 54,173,301**

Kivalliq Energy Corporation
(An Exploration Stage Company)
Statements of Cash Flows
For the Years Ended September 30
(Expressed in Canadian Dollars)

		2015		2014
Cash Flows from (used in) Operating Activities				
Net loss for the year	$	(1,089,672)	$	(2,587,778)
Adjustments for:				
Amortization and depreciation		111,967		136,490
Deferred tax expense (recovery)		45,654		(338,600)
Stock-based compensation		-		1,212,653
Amortization of flow-through premium liability		(242,670)		(73,582)
Interest income		(12,311)		(21,160)
Changes in non-cash working capital:				
Other receivables		286,536		(631,129)
GST recoverable		(10,122)		9,276
Prepaid expenses		12,473		125,684
Accounts payable and accrued liabilities		(338,987)		364,947
		(1,237,132)		(1,803,199)
Interest received		9,660		48,724
		(1,227,472)		(1,754,475)
Cash Flows used in Investing Activities				
Exploration and evaluation assets		(1,588,499)		(1,405,753)
Equipment		(3,289)		-
Marketable securities		-		(70,000)
		(1,591,788)		(1,475,753)
Cash Flows from Financing Activities				
Issuance of share capital, net of issuance costs		2,699,319		1,332,843
Net decrease in cash and cash equivalents		(119,941)		(1,897,385)
Cash and cash equivalents - Beginning of year		1,067,494		2,964,879
Cash and cash equivalents - End of year	$	947,553	$	1,067,494

Supplemental Schedule of Non-Cash Investing Activities		**September 30, 2015**		September 30, 2014
Exploration and evaluation expenditures included in accounts payable	$	201,193	$	367,748
Exploration and evaluation recovery included in other receivable	$	173,876	$	-
Cash and cash equivalents consist of:				
Cash on hand	$	42,288	$	623,249
Term deposits		905,265		444,245
	$	947,553	$	1,067,494
Cash paid for income taxes	$	-	$	-
Cash paid for interest	$	-	$	-

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

Kivalliq Energy Corporation

(An Exploration Stage Company)

Schedule of Exploration and Evaluation Assets

(Expressed in Canadian Dollars)

	For the Year Ended September 30, 2015			For the year ended September 30, 2014
	Acquisition Costs	**Deferred Exploration Costs**	**Total**	Total
Angilak				
Land Administration	$ (14,472)	$ 35,877	**$ 21,405**	$ 117,926
Air Support and Transportation	-	312,182	**312,182**	51,123
Field and General Operations	-	137,841	**137,841**	99,709
Field Contractors and Consultants	-	232,549	**232,549**	552,850
Laboratory Costs	-	41,077	**41,077**	104,334
Salaries and Wages	-	227,671	**227,671**	150,275
Travel and Accommodation	-	45,929	**45,929**	57,057
Baker Basin				
Land Administration	-	-	**-**	208,016
Field Contractors and Consultants	-	60	**60**	12,704
Salaries and Wages	-	471	**471**	64,861
Genesis				
Land Administration	-	-	**-**	119,475
Air Support and Transportation	-	-	**-**	7,000
Field and General Operations	-	1,873	**1,873**	1,735
Field Contractors and Consultants	-	731	**731**	82,318
Salaries and Wages	-	10,129	**10,129**	122,463
Travel and Accommodation	-	-	**-**	839
Option Agreement Payment	-	-	**-**	(154,547)
Hatchet Lake				
Land Administration	46,124	30	**46,154**	-
Air Support and Transportation	-	112,473	**112,473**	-
Field and General Operations	-	13,045	**13,045**	-
Field Contractors and Consultants	-	141,978	**141,978**	-
Laboratory Costs	-	88,811	**88,811**	-
Salaries and Wages	-	109,463	**109,463**	-
Travel and Accommodation	-	51,978	**51,978**	-
Exploration and Evaluation Assets for the Year	31,652	1,564,168	**1,595,820**	1,598,138
Balance, Beginning of the Year	1,499,843	53,093,487	**54,593,330**	52,995,192
Balance, End of the Year	$ 1,531,495	$ 54,657,655	**$ 56,189,150**	$54,593,330

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

1. Nature of Operations and Going Concern

Kivalliq Energy Corporation ("Kivalliq" or the "Company") was incorporated as a wholly owned subsidiary of Kaminak Gold Corporation ("Kaminak") on February 13, 2008 as 0816479 BC Ltd. under British Columbia's Company Act. Effective February 20, 2008, 0816479 BC Ltd. changed its name to Kivalliq Energy Corporation. The Company is an exploration stage company focusing on the acquisition, exploration and development of resource properties. The Company's head office is located at Suite 1020, 800 West Pender Street, Vancouver, BC, V6C 2V6.

The Company became a reporting issuer in Alberta and British Columbia on July 4, 2008 by virtue of a reorganization transaction involving the exchange of securities between Kaminak, the Company and the shareholders of Kaminak. The reorganization transaction involved the acquisition from Kaminak of a 100% interest in Kaminak's Uranium properties (Angilak, Baker Lake and Washburn). On July 7, 2008, after completion of its private placements, the Company's shares became publicly traded on the TSX Venture Exchange under the symbol "KIV".

Long-term continuance of the Company's operations is dependent upon achieving profitable operations and obtaining additional equity or debt financing. The recoverability of the carrying values of the Company's resource property interests is dependent upon the existence and discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties and future profitable production from or proceeds from the disposition of resource properties. At September 30, 2015, the Company has not achieved profitable operations and has accumulated losses since inception. There is material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

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

2. Significant Accounting Policies

a) **Basis of Presentation**

These financial statements have been prepared in accordance with International Accounting Standards 1, Presentation of financial statements ("IAS 1") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). To more accurately reflect the nature of certain expenses, the Company has reclassified certain expenses recorded on the statement of operations in the comparative period. These financial statements were approved by the Board of Directors on January 26, 2016.

b) **Foreign Currency Translation**

The functional currency of the Company is the Canadian dollar. Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate in effect at the financial statement date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period. Exchange gains or losses arising from these translations are recognized in profit and loss for the reporting period.

c) **Equipment**

i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

When parts of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment, and are recognized net within other income in profit or loss.

ii) Subsequent costs

The cost of replacing equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of equipment are expensed.

2. Significant Accounting Policies – *Continued*

c) **Equipment -** *Continued*

iii) Depreciation

Depreciation is calculated over the cost of an asset less its residual value. Depreciation is provided on a declining balance method at rates designed to depreciate the cost of the equipment over the estimated useful lives. The annual depreciation rates are as follows:

Computer equipment	30%
Furniture and equipment	20%
Field equipment	20%

Depreciation of leasehold improvements is calculated straight-line over the term of the lease.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

d) **Comprehensive Income (Loss)**

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments.

e) **Exploration and Evaluation Assets**

Resource exploration and evaluation costs, including option payments, are capitalized on an individual area of interest basis until the properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are expensed to operations. Option payments arising on the acquisition of mineral property interests exercisable at the discretion of the Company are recognized as paid or payable.

Exploration and evaluation costs include cash consideration and the estimated fair market value of common shares or warrants on the date of issue as provided under the agreed terms of acquisition for the mineral property interest.

Capitalized exploration and evaluation costs are those directly attributable costs related to the search for, and evaluation of, mineral resources, that are incurred after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of a mineral reserve are demonstrable. Any costs incurred prior to obtaining the right to explore a mineral property are expensed as incurred as project evaluation expenses in the statement of operations and comprehensive loss.

2. Significant Accounting Policies – *Continued*

e) Exploration and Evaluation Assets – *Continued*

Management reviews the carrying value of capitalized exploration and evaluation costs each reporting period for indications of impairment. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where information is available, and conditions suggest impairment, the fair value of the mineral property is determined using net cash flows for the mineral property taking into account proven and probable reserves and resources, estimated future prices and operating, capital and reclamation costs. In the case of undeveloped projects, there may be only inferred or indicated resources to form a basis for the impairment review. In such cases, the impairment review is based on the exploration and evaluation results to-date and a status report regarding the Company's intentions for development of the mineral property.

Recovery of the resulting carrying value of exploration and evaluation costs depends on the successful development or sale of the undeveloped project. If a project does not prove to be viable, all irrecoverable costs associated with the project are expensed to operations.

Once an economically viable reserve has been determined for a property and the decision to proceed with development has been approved, acquisition, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction-in-progress within property and equipment.

The amount presented for exploration and evaluation assets represents costs incurred, less impairment costs, if any, to date and does not necessarily reflect present or future values.

f) Restoration, Rehabilitation and Environmental Costs

An obligation to incur rehabilitation and site restoration costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The Company is required to record as a liability the estimated present value of future cash flows associated with the statutory, contractual or legal obligations related to site restoration and rehabilitation when the liability is incurred, with a corresponding increase to the carrying value of the related assets.

The Company has no material restoration, rehabilitation or environmental liabilities as the disturbance to date is minimal.

g) Tax

Tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date. As the Company is in a loss position there is no current tax payable.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

2. Significant Accounting Policies – *Continued*

g) **Tax – Continued**

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

h) **Share-Based Compensation**

The grant date fair value of share-based payment awards granted to employees and consultants, including directors and officers, is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. Share-based payments to non-employees are measured at the fair value of the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

i) **Loss per Common Share**

Basic loss per common share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

The computation of diluted loss per common share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The effect of potential issuances of shares from the exercise of outstanding options and warrants would be anti-dilutive for the periods presented and accordingly, basic and diluted loss per share are the same.

j) **Use of Estimates and Judgments**

The following are the critical judgments and estimates that the Company has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Critical Judgments

The preparation of these financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

2. Significant Accounting Policies – *Continued*

j) Use of Estimates and Judgments - *Continued*

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the financial statements include:

Share-based compensation

Share-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based compensation expense for the years ended September 30, 2015 and 2014 along with the assumptions and model used for estimating fair value for share based compensation transactions are disclosed in Note 7.

Deferred tax assets and liabilities

The measurement of a deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected.

Useful life of equipment

Each significant component of an item of equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand, and the potential for technological obsolescence.

2. Significant Accounting Policies – *Continued*

j) **Use of Estimates and Judgments** - *Continued*

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of the Company's exploration and evaluation assets do not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

k) **Impairment**

i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets

At each reporting date the carrying amounts of the Company's long-lived assets, which are comprised of equipment and exploration and evaluation assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset or its related cash generating unit. For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Company's cash generating units relate to the properties being explored in Nunavut, Canada and Saskatchewan/Manitoba, Canada.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the associated assets are reduced to their recoverable amount and the impairment loss is recognized in the profit or loss for the period.

2. Significant Accounting Policies – *Continued*

k) **Impairment –** *Continued*

ii) Non-financial assets – *Continued*

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

l) **Financial Instruments**

i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets are classified into one of the following categories:

Loans and receivables

The Company has designated its cash and cash equivalents, other receivables and GST recoverable as loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. The Company holds cash and cash equivalents with a large Canadian bank that has a strong credit rating.

2. Significant Accounting Policies – *Continued*

l) Financial Instruments – *Continued*

i) Non-derivative financial assets – *Continued*

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not have any financial assets at fair value through profit or loss.

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

The Company does not have any held-to-maturity financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. They are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in accumulated other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company has designated its marketable securities as available-for-sale.

ii) Non-derivative financial liabilities

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities, which are designated as other liabilities.

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

2. Significant Accounting Policies – *Continued*

l) **Financial Instruments** – *Continued*

iii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through common shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company.

Upon issuance of flow-through common shares, the fair value of the common shares is recorded as an increase in share capital. Any difference (premium) between the amounts recognized in share capital and the amount paid by the investor is recognized as a flow-through share premium liability and is reversed into earnings at the time the flow-through expenditures have been incurred, net of share issuance costs.

When flow-through expenditures have been incurred and it is the Company's intent to renounce such expenditures, the Company records the tax effect as a charge to profit or loss and an increase to deferred tax liabilities. To the extent that the Company has deferred tax assets that were not recognized in previous periods, a deferred tax recovery is recorded as an offsetting recovery in profit or loss.

m) **Changes in Current and Future Accounting Standards**

During the current year the Company adopted IFRS 2 and 13 and IAS 24, 32 and 36. There was no effect on the financial statements from the adoption of these standards.

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2015 and have not been applied in preparing these financial statements. The Company is currently assessing the impact that these standards will have on the financial statements.

<u>Effect for annual periods beginning on or after January 1, 2018:</u>

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9"), effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The Company is currently assessing the impact of this standard on its consolidated financial statements.

(Expressed in Canadian Dollars)

3. Marketable Securities and Other Comprehensive Income

	Fair value September 30, 2014	Net additions September 30, 2015	Fair value adjustment September 30, 2015	**Fair value September 30, 2015**
Common shares	$ 527,457	$ -	$ (361,569)	**$ 165,888**
Warrants	11,822	-	(11,822)	**-**
	$ 539,279	$ -	$ (373,391)	**$ 165,888**

	Fair value September 30, 2013	Net additions September 30, 2014	Fair value adjustment September 30, 2014	Fair value September 30, 2014
Common shares	$ -	$ 99,547	$ 427,910	$ 527,457
Warrants	$ -	$ -	$ 11,822	$ 11,822
	$ -	$ 99,547	$ 439,732	$ 539,279

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.)

The Company announced that, pursuant to a Mining Option Agreement dated July 10, 2014 between Kivalliq and Roughrider Exploration Limited ("Roughrider") (formerly Westham Resources Corp.), Kivalliq had acquired ownership of 1,969,828 common shares of Roughrider at a cost of $29,547. (See note 6)

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

4. Other Receivables

	September 30, 2015	September 30, 2014
Roughrider Exploration Ltd. (note 6)	**$ -**	$ 532,131
Government of Saskatchewan (note 6)	**173,876**	-
Due from related parties (note 8)	**3,764**	86,628
Other miscellaneous receivables	**2,671**	19,313
	$ 180,311	$ 638,072

The other receivables balance at September 30, 2015 pertains primarily to costs eligible for recuperation from the Government of Saskatchewan for a deficiency deposit on the Hatchet Lake Property. The other receivables balance at September 30, 2014 pertains primarily to the receivable from Roughrider for exploration and evaluation expenses incurred by the Company as part of Phase 1 of the 2014 exploration program on the Genesis Property. Phase 1 was fully funded by Roughrider and operated by Kivalliq. See note 6 for details.

(Expressed in Canadian Dollars)

5. Equipment

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
Cost at September 30, 2014	**$ 31,595**	**$ 29,827**	**$ 937,263**	**$ 58,513**	**$ 1,057,198**
Current year additions	**-**	**3,289**	**-**	**-**	**3,289**
Cost at September 30, 2015	**31,595**	**33,116**	**937,263**	**58,513**	**1,060,487**
Accumulated depreciation at September 30, 2014	**16,647**	**19,216**	**475,507**	**38,299**	**549,669**
Current year depreciation	**2,990**	**3,859**	**92,351**	**12,767**	**111,967**
Accumulated depreciation at September 30, 2015	**19,637**	**23,075**	**567,858**	**51,066**	**661,636**
Net book value at September 30, 2015	**$ 11,958**	**$ 10,041**	**$ 369,405**	**$ 7,447**	**$ 398,851**

	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 year additions	-	-	-	-	-
Cost at September 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 year depreciation	3,737	4,548	115,439	12,766	136,490
Accumulated depreciation at September 30, 2014	16,647	19,216	475,507	38,299	549,669
Net book value at September 30, 2014	$ 14,948	$ 10,611	$ 461,756	$ 20,214	$ 507,529

(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	**Cumulative as at September 30, 2015**	Cumulative as at Sept 30, 2014
Angilak, Nunavut	$ 1,280,371	$ 53,866,749	**$ 55,147,120**	$ 54,128,466
Baker Basin, Nunavut	205,000	81,112	**286,112**	285,581
Genesis Property, Saskatchewan and Manitoba	-	192,016	**192,016**	179,283
Hatchet Lake, Saskatchewan	46,124	517,778	**563,902**	-
Total	$ 1,531,495	$ 54,657,655	**$ 56,189,150**	$ 54,593,330

General

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

Angilak, Nunavut

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

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

In order to keep the Inuit Owned Lands in good standing, Kivalliq has or will complete the following:

- Kivalliq issued 1,000,000 common shares from treasury to NTI staged over 36 months beginning after final TSX:V approval for the spin-out transaction. Upon completion of a feasibility study on any portion of the property, NTI has the option of taking either a 25% participating interest or a 7.5% net profits royalty in the specific area subject to the feasibility study.

- Upon completion of a National Instrument 43-101 compliant report that outlines a measured resource of at least 12 million pounds of uranium, Kivalliq will pay NTI a cash sum of $1,000,000.

As a consequence of the land claims settlement, the Inuit Owned Lands are not subject to royalty obligations to the Government of Canada, but instead are subject to an underlying 12% net profits royalty payable on all minerals to NTI. During periods of positive operating revenue, gross uranium revenue shall be calculated as 130% of the value of the product. Starting December 31, 2008, Kivalliq is to pay annual advance royalty payments to NTI in the sum of $50,000 annually (2008 – 2014 paid). On December 4, 2015, NTI has allowed the Company to defer the annual advance royalty payment due on December 31, 2015 to December 31, 2019.

6. Exploration and Evaluation Assets - *Continued*

Baker Basin, Nunavut

On October 15, 2013, the Company acquired the Baker Basin Uranium Property in Nunavut Territory through a transaction with PEX.

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

Genesis, Saskatchewan and Manitoba

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

On August 7, 2014, Kivalliq commenced Phase 1 2014 exploration program on its Genesis Property, which was fully funded by Roughrider and operated by Kivalliq. A summary of the results from the Phase 1 program was provided in a news release dated December 1, 2014. In the year ended September 30, 2015, Kivalliq spent $459,632 (2014 - $1,147,281) of exploration and evaluation expenses that have been subsequently billed to Roughrider for reimbursement, along with project operator fees of $38,873 (2014 - $59,820), of which $nil remains receivable as at September 30, 2015 (September 30, 2014 - $532,131).

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

6. Exploration and Evaluation Assets - *Continued*

Genesis, Saskatchewan and Manitoba - *Continued*

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

Hatchet Lake, Saskatchewan

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

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

Due to the Company's exploration expenditures on the property during fiscal 2015, the Company recouped a $173,876 deficiency deposit previously placed on the property by Rio Tinto.

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

(Expressed in Canadian Dollars)

7. Share Capital

As at September 30, 2015, there were an unlimited number of common voting shares without par value authorized.

a) Private Placements

On April 30, 2015, Kivalliq closed a financing in the amount of $2,779,120 by issuing 10,152,134 flow through ("FT") units at a price of $0.15 per FT unit and 10,469,166 non-flow-through ("NFT") units at a price of $0.12 per NFT unit. The FT and NFT units each consist of one common share and one-half of one non-transferable, non-flow-through common share purchase warrant. Each whole 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 $0.18 per warrant share.

The warrants attached to this issuance have been valued at $338,143 based upon the Black-Scholes Method using the following assumptions noted below.

Risk-free interest rate	0.44%
Expected dividend yield	0%
Share price	$0.14
Expected stock price volatility	68%
Average expected warrant life	2 years

In aggregate, the financing was subject to the following finders' fees: $79,801 of cash commission and other fees and 691,224 finder's warrants with a strike price of $0.18 exercisable for a period of two years from the date of this private placement. Kivalliq has recorded the fair value of these finder warrants as share issuance costs. The finder's warrants attached to this issuance have been valued at $27,069 based upon the Black-Scholes Method using the assumptions noted above.

On August 1, 2014, 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.

The warrants attached to this issuance have been valued at $115,954 based upon the Black-Scholes Method using the following assumptions noted below.

Risk-free interest rate	1.09%
Expected dividend yield	0%
Share price	$0.28
Expected stock price volatility	66%
Average expected warrant life	2 years

In aggregate, the financing was subject to the following finders' fees: $9,157 of cash commission and other fees and 15,000 finder's warrants with a strike price of $0.28 exercisable for a period of two years from the date of this private placement. 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 $715 based upon the Black-Scholes valuation model using the same assumptions noted above.

(Expressed in Canadian Dollars)

7. Share Capital – *Continued*

a) Private Placements - *Continued*

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.

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

The changes in warrants issued are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2013	17,420,219	$0.50
Issued	2,601,364	$0.28
Expired	(1,719,986)	$0.46
Outstanding warrants, September 30, 2014	18,301,597	$0.47
Issued	11,001,872	$0.18
Expired	(550,900)	$0.50
Outstanding warrants, September 30, 2015	**28,752,569**	**$0.36**

At September 30, 2015, 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, 2016	$0.50	15,149,333	0.51
July 5, 2016	$0.28	1,150,000	0.76
August 1, 2016	$0.28	1,436,364	0.84
August 1, 2016	$0.28	15,000	0.84
April 20, 2017	$0.18	5,076,066	1.56
April 20, 2017	$0.18	288,004	1.56
April 28, 2017	$0.18	5,234,582	1.58
April 28, 2017	$0.18	403,220	1.58
Weighted average of exercise price and remaining contractual life	**$0.36**	**28,752,569**	**0.94**

(Expressed in Canadian Dollars)

7. Share Capital – *Continued*

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, 2013	14,150,000	$0.44
Issued	8,060,000	$0.22
Exercised	(1,360,000)	$0.15
Cancelled	(1,235,000)	$0.42
Outstanding options, September 30, 2014	19,615,000	$0.37
Cancelled	(10,740,000)	$0.47
Outstanding options, September 30, 2015	**8,875,000**	**$0.25**

At September 30, 2015 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
[1]October 19, 2015	$0.50	130,000	130,000	0.05
[2]January 25, 2017	$0.50	450,000	450,000	1.31
[3]September 25, 2017	$0.45	310,000	310,000	1.99
[4]September 12, 2019	$0.22	7,985,000	7,985,000	3.95
Weighted average of exercise price and remaining contractual life	**$0.25**	**8,875,000**	**8,875,000**	**3.69**

[1]Subsequent to September 30, 2015, 130,000 options expired without exercise.
[2]Subsequent to September 30, 2015, 175,000 options were cancelled without exercise.
[3]Subsequent to September 30, 2015, 85,000 options were cancelled without exercise.
[4]Subsequent to September 30, 2015, 220,000 options were cancelled without exercise.

(Expressed in Canadian Dollars)

7. Share Capital – *Continued*

c) Stock Options – *Continued*

The Company did not grant any stock options during the year ended September 30, 2015 and did not record any share-based compensation during the year. During the year ended September 30, 2014, Kivalliq granted options to acquire 8,060,000 common shares with a weighted average exercise price of $0.22 per common share and a weighted average fair value of $0.15 per option. Share-based compensation expense under the Black-Scholes option pricing model of $1,212,653 was recorded in relation to options vested during the year ended September 30, 2014.

The fair value of stock options for all options issued during 2014 was estimated at the grant date based on the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.58%
Expected dividend yield	0%
Share price	$0.22
Expected stock price volatility	87%
Average expected option life	5 years

The risk-free interest rate is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed 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.

d) Flow-through Share Premium Liability

		September 30, 2015		September 30, 2014
Balance, beginning of year	**$**	**81,600**	$	-
Premium attributed to flow-through shares issued		**288,605**		155,182
Reduction of liability due to expenditures incurred		**(242,670)**		(73,582)
Balance, end of year	**$**	**127,535**	$	81,600

The remaining flow-through expenditures required to be spent in the next fiscal year is $656,286.

(Expressed in Canadian Dollars)

8. Related Party Transactions

Key management compensation

Key management consists of the Company's directors and officers. In addition to management and consulting fees paid to these individuals, or companies controlled by these individuals, the Company provides non-cash benefits. The aggregate value of compensation with key management for the year ended September 30, 2015 was $657,743 (2014 - $1,725,047) and was comprised of the following:

		Year ended September 30, 2015		Year ended September 30, 2014
Wages, salaries and consulting fees	**$**	**628,965**	$	725,614
Stock-based compensation		**-**		962,901
Non-cash benefits		**28,778**		36,532
Total remuneration	**$**	**657,743**	$	1,725,047

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

During the year ended September 30, 2015, the Company reimbursed $305,096 (2014 - $348,474) to recover the direct costs of rent, salaries, and office and administration expenses incurred by Aurora Mineral Resource Group ("AMRG"), a company controlled by John Robins. These costs reimbursed are not subject to any mark-up or fees as AMRG was set up for the express purpose of maximizing administrative efficiencies. Shortly after the Company's year-end, AMRG will no longer have any related party transactions with the Company.

During the year ended September 30, 2015, the Company reimbursed companies with common directors and key management $40,802 (2014 - $68,990) for travel and office costs incurred on behalf of the Company.

During the year ended September 30, 2015, the Company incurred expenses on behalf of companies with common directors of $130,810 (2014 - $90,406) for exploration and administrative costs.

The balance receivable from related parties at September 30, 2015 was $3,764 (September 30, 2014 - $86,628).

The balance payable to related parties at September 30, 2015 was $49,103 (September 30, 2014 - $22,060) 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.

9. Financial Instruments

Categories of financial assets and liabilities

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

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

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

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

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

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 September 30, 2015 was $1,346,685 (September 30, 2014 - $2,287,656).

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 September 30, 2015, Kivalliq had a cash and cash equivalents balance of $947,553 (September 30, 2014 - $1,067,494) to settle accounts payable and accrued liabilities of $284,087 (September 30, 2014 – $789,629). 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.

9. 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 institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of September 30, 2015 Kivalliq had $905,265 (September 30, 2014 – $444,245) 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 $16,589 as at September 30, 2015 (September 30, 2014 - $53,928).

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 year ended September 30, 2015. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

11. Commitments

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

Fiscal 2016	26,108
Total Commitments	**$ 26,108**

Also, as part of the agreement pertaining to Angilak Property, Kivalliq is committed to paying annual royalty fees of $50,000 to NTI. See note 6.

12. Income Taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2013 – 27%) to the income for the year and is reconciled as follows:

		Year Ended September 30, 2015		Year Ended September 30, 2014
Loss before income taxes	**$**	**(1,044,018)**	$	(2,926,378)
Statutory Canadian federal and provincial tax rates		**27.00%**		27.00%
Expected tax recovery		**(281,885)**		(790,122)
Non-deductible (deductible) expenses				
Stock based compensation and other		**(67,992)**		314,309
Flow-through share renunciation		**395,531**		145,693
Investment tax credits		**-**		(8,480)
Deferred income tax expense (recovery)	**$**	**45,654**	$	(338,600)

The tax effects on the temporary differences that give rise to the Company's deferred tax assets and liabilities are as follows:

		2015		2014
Non-capital losses	**$**	**2,657,870**	$	2,200,827
Investment tax credit		**1,499,602**		1,499,602
Equipment		**186,737**		156,506
Share issuance costs		**93,847**		193,546
Deferred tax asset		**4,438,056**		4,050,481
Exploration and evaluation assets		**(7,907,549)**		(7,495,866)
Marketable securities		**(8,956)**		(59,364)
Net deferred tax liability	**$**	**(3,478,449)**	$	(3,504,749)

(Expressed in Canadian Dollars)

12. Income Taxes - *Continued*

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have been included on the statement of financial position are as follows:

	2015	**Expiry Date Range**	2014	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	**$(29,287,215)**	**No expiry date**	$(27,762,464)	No expiry date
Investment tax credit	**2,054,250**	**2030 to 2034**	2,054,250	2030 to 2034
Marketable securities	**(66,341)**	**No expiry date**	(439,732)	No expiry date
Equipment	**691,617**	**No expiry date**	579,650	No expiry date
Share issuance costs	**347,581**	**2036 to 2039**	716,836	2035 to 2038
Non-capital losses	**9,843,962**	**2028 to 2035**	8,151,212	2028 to 2034

Tax attributes are subject to review and potential adjustment by tax authorities.

13. 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.