

**KIVALLIQ ENERGY CORPORATION**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

**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, 2017 and 2016, and the statements of operations and comprehensive loss, cash flows, and changes in shareholders' equity 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, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

January 29, 2018



# Kivalliq Energy Corporation

(An Exploration Stage Company)

Statements of Financial Position

(Expressed in Canadian Dollars)

	Notes	September 30, 2017	September 30, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents		\$ 1,097,072	\$ 395,719
Marketable securities	3	321,983	428,516
Other receivables	4	94,143	34,931
GST recoverable		54,502	36,290
Prepaid expenses	8	217,742	25,379
		1,785,442	920,835
Equipment	5	246,925	309,643
Exploration and evaluation assets	6	57,307,808	56,715,023
		\$ 59,340,175	\$ 57,945,501
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 231,374	\$ 107,602
Flow-through share premium liability	7	-	8,193
		231,374	115,795
Long-term liability	6	100,000	50,000
Deferred tax liability	12	3,373,092	3,561,167
		3,704,466	3,726,962
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		61,730,978	60,294,821
Contributed surplus		11,102,447	10,438,229
Accumulated other comprehensive income (loss)		(23,219)	144,556
Deficit		(17,174,497)	(16,659,067)
		55,635,709	54,218,539
		\$ 59,340,175	\$ 57,945,501

Nature of Operations and Going Concern (Note 1)

APPROVED ON JANUARY 29, 2018 ON BEHALF OF THE BOARD:

"James Paterson", CEO, Director

"Dale Wallster", 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

(Expressed in Canadian Dollars)

	Note	2017	2016
<b>Expenses</b>			
Amortization and depreciation	5	62,718	\$ 87,109
Bank charges and interest		3,189	1,274
Investor relations		33,684	93,468
Listing and filing fees		21,995	15,331
Office and sundry		93,025	129,358
Professional fees		102,723	70,467
Project evaluation		32,541	20,272
Salaries and consulting fees		247,984	245,686
Share-based compensation	7	64,494	-
Transfer agent fees		9,624	17,342
Travel and conference		54,062	33,720
<b>Loss before the undernoted</b>		<b>(726,039)</b>	<b>(714,027)</b>
<b>Other income (expenses)</b>			
Project operator fees		7,073	2,606
Interest income		6,613	6,562
Other income		4,841	1,355
Loss on foreign exchange		(72)	(251)
Realized gain on sale of marketable securities	3	20,119	17,650
Write-down of equipment	5	-	(4,613)
Recovery on exploration and evaluation asset	6	-	199,408
Amortization of flow-through premium liability	7	8,193	159,200
<b>Loss before income taxes</b>		<b>(679,272)</b>	<b>(332,110)</b>
<b>Deferred tax recovery (expense)</b>	12	<b>163,842</b>	<b>(68,552)</b>
<b>Net loss for the year</b>		<b>(515,430)</b>	<b>(400,662)</b>
Change in fair value of marketable securities	3	(192,008)	103,318
Tax recovery (expense) in OCI from change in fair value of marketable securities		24,233	(16,147)
<b>Total comprehensive loss for the year</b>		<b>\$ (683,205)</b>	<b>\$ (313,491)</b>
<b>Basic and diluted loss per common share</b>		<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>		<b>239,170,293</b>	<b>217,761,622</b>

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Statements of Cash Flows

(Expressed in Canadian Dollars)

	Notes	2017	2016
<b>Operating Activities</b>			
Net loss for the year		\$ (515,430)	\$ (400,662)
Items not involving cash:			
Amortization and depreciation	5	62,718	87,109
Deferred tax recovery (expense)		(163,842)	68,552
Share-based compensation		64,494	-
Amortization of flow-through premium liability	7	(8,193)	(159,200)
Interest income		(6,613)	(6,562)
Realized gain on sale of marketable securities	3	(20,119)	(17,650)
Write-down of equipment	5	-	4,613
Changes in non-cash working capital:			
Other receivables		(57,025)	(31,145)
GST recoverable		(18,212)	16,643
Prepaid expenses		(192,363)	103,307
Accounts payable and accrued liabilities		129,294	(48,995)
		(725,291)	(383,990)
Interest received		4,426	7,230
		(720,865)	(376,760)
<b>Investing Activities</b>			
Exploration and evaluation assets		(1,538,366)	(1,006,772)
Proceeds from sale of royalty	6	950,000	400,000
Equipment		-	(2,514)
Proceeds from sale of marketable securities	3	72,144	35,625
		(516,222)	(573,661)
<b>Financing Activities</b>			
Issuance of share capital, net of issuance costs	7	1,938,440	398,587
		1,938,440	398,587
Net increase in cash and cash equivalents		701,353	(551,834)
Cash and cash equivalents, beginning of the year		395,719	947,553
Cash and cash equivalents, end of the year		\$ 1,097,072	\$ 395,719
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b>			
Exploration and evaluation expenditures included in accounts payable		\$ 68,181	\$ 73,703
Shares issued for exploration & evaluation assets		\$ 30,000	\$ -
Fair value of referral warrants		\$ 67,441	\$ -
Exploration & evaluation assets included in long-term liabilities		\$ 100,000	\$ 50,000
Fair value of private placement warrants		\$ 416,969	\$ 49,533
Fair value of warrants issued as finders' fees		\$ 115,314	\$ 6,950
Share received for exploration and evaluation asset		\$ 137,500	\$ 177,285
Cash and cash equivalents consist of:			
Cash on hand		\$ 93,127	\$ 137,827
Term deposits		\$ 1,003,945	\$ 257,892
		\$ 1,097,072	\$ 395,719

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

## Kivalliq Energy Corporation

(An Exploration Stage Company)

Statement of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Share Capital				Accumulated other comprehensive income	Total shareholders' equity
	Number of shares	Amount	Contributed surplus	Deficit		
Balance, September 30, 2015	216,821,731	\$ 59,992,575	\$ 10,381,746	\$ (16,258,405)	\$ 57,385	\$ 54,173,301
Private placement shares and warrants issued (note 7(a))	4,000,000	350,467	49,533	-	-	400,000
Flow-through share premium	-	(39,858)	-	-	-	(39,858)
Share issuance costs – cash	-	(1,413)	-	-	-	(1,413)
Share issuance costs – warrants	-	(6,950)	6,950	-	-	-
Tax expense in OCI from fair value adjustment on marketable securities in OCI	-	-	-	-	(16,147)	(16,147)
Fair value adjustment on marketable securities	-	-	-	-	103,318	103,318
Loss for the year	-	-	-	(400,662)	-	(400,662)
Balance, September 30, 2016	220,821,731	60,294,821	10,438,229	(16,659,067)	144,556	\$ 54,218,539
Private placement shares & warrants issued (note(7a))	25,925,000	1,657,031	416,969	-	-	2,074,000
Share issuance costs- cash	-	(135,560)	-	-	-	(135,560)
Share issuance costs-warrants	-	(115,314)	115,314	-	-	-
Referral warrants (note 6)	-	-	67,441	-	-	67,441
Shares issued pursuant to option agreement (note 6)	250,000	30,000	-	-	-	30,000
Share-based compensation	-	-	64,494	-	-	64,494
Tax expense in OCI from fair value adjustment on marketable securities in OCI	-	-	-	-	24,233	24,233
Fair value adjustment on marketable securities	-	-	-	-	(192,008)	(192,008)
Loss for the year	-	-	-	(515,430)	-	(515,430)
<b>Balance, September 30, 2017</b>	<b>246,996,731</b>	<b>\$ 61,730,978</b>	<b>\$ 11,102,447</b>	<b>\$ (17,174,497)</b>	<b>\$ (23,219)</b>	<b>\$ 55,635,709</b>

- 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, 2017			For the year ended September 30, 2016
	Acquisition Costs	Deferred Exploration Costs	Total	Total
<b>Angilak</b>				
Land Administration	\$ 124,405	\$ -	\$ 124,405	\$ 70,040
Air Support and Transportation	-	11,433	11,433	166,488
Field and General Operations	-	59,252	59,252	89,834
Field Contractors and Consultants	-	21,521	21,521	55,871
Laboratory Costs	-	50,668	50,668	24,791
Fuel	-	(12,834)	(12,834)	(132,478)
Salaries and Wages	-	50,164	50,164	162,049
Travel and Accommodation	-	9,047	9,047	27,692
Proceeds from sale of royalty (net of referral fees)	(608,306)	-	(608,306)	-
<b>Baffin Gold</b>				
Land Administration	131,718	-	131,718	-
Air Support and Transportation	-	262,534	262,534	-
Field and General Operations	-	147,733	147,733	-
Field Contractors and Consultants	-	2,021	2,021	-
Fuel	-	43,026	43,026	-
Laboratory Costs	-	17,725	17,725	-
Salaries and Wages	-	371,965	371,965	-
Travel and Accommodation	-	62,433	62,433	-
<b>Baker Basin</b>				
Land Administration	130	-	130	1,452
Salaries and Wages	-	277	277	1,079
<b>Genesis</b>				
Field and General Operations	-	-	-	2,187
Field Contractors and Consultants	-	-	-	391,000
Salaries and Wages	-	6,850	6,850	20,226
Option Agreement Payment	-	-	-	(377,876)
Travel and Accommodation	-	495	495	-
Property Option Payment	-	(137,500)	(137,500)	-
<b>Hatchet Lake</b>				
Land Administration	78,282	-	78,282	-
Field Contractors and Consultants	-	107,216	107,216	(1,443)
Fuel	-	3,986	3,986	-
Laboratory Costs	-	-	-	325
Salaries and Wages	-	5,797	5,797	24,636
Proceeds from sale of royalty (net of referral fees)	(124,406)	(92,847)	(217,253)	-
<b>Exploration and Evaluation Assets for the Year</b>				
	(398,177)	990,962	592,785	525,873
Balance, Beginning of the Year	\$ 1,581,495	\$ 55,133,528	\$ 56,715,023	\$ 56,189,150
<b>Balance, End of the Year</b>	<b>\$ 1,183,318</b>	<b>\$ 56,124,490</b>	<b>\$ 57,307,808</b>	<b>\$ 56,715,023</b>

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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## 1. Nature of Operations and Going Concern

Kivalliq Energy Corporation (“Kivalliq” or the “Company”) was incorporated as a wholly owned subsidiary of Kaminak Gold Corporation (“Kaminak”) on February 13, 2008 as 0816479 BC Ltd. under British Columbia’s Company Act. Effective February 20, 2008, 0816479 BC Ltd. changed its name to Kivalliq Energy 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 Angilak Uranium property. 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, 2017, the Company has not achieved profitable operations and has accumulated losses since inception. Management estimates that there is sufficient working capital to continue operations for the next twelve months.

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.

## 2. Significant Accounting Policies and Basis of Presentation

### 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”). These financial statements were approved by the Board of Directors on January 29, 2017.



# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### 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

#### *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.

#### *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.

#### *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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### 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.

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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### 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.

### g) Income Taxes

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.

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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### i) Loss per Common Share – *Continued*

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.

#### ***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, 2017 and 2016 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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### j) Use of Estimates and Judgments – *Continued*

#### **Key Sources of Estimation Uncertainty – *Continued***

##### *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.

##### *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

#### **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.

#### **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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### k) Impairment – *Continued*

#### ***Non-financial assets – Continued***

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.

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

#### ***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 large Canadian financial institutions that have a strong credit rating.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### I) Financial Instruments – *Continued*

#### ***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.

#### ***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.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

### l) Financial Instruments – *Continued*

#### **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 7. The Company has adopted this amended standard without any significant effect on its financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective as of September 30, 2017 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.

#### **Effect for annual periods beginning on or after January 1, 2018:**

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

IFRS 16 - Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.



# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

## 3. Marketable Securities and Other Comprehensive Income

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

	Fair value Oct 1, 2016	Additions Sep 30, 2017	Disposals Sep 30, 2017	Fair value adjustment Sep 30, 2017	Fair value Sep 30, 2017
Common shares	\$ 428,516	\$137,500	\$(52,025)	\$ (192,008)	\$ 321,983

During the year ended September 30, 2017, the Company sold common shares for proceeds of \$72,144 (2016: \$35,625), net of transaction costs. The common shares were initially acquired at a cost of \$52,025 (2016: \$17,975) which resulted in a realized gain of \$20,119 (2016: \$17,650).

During the year ended September 30, 2017, Roughrider Exploration Limited ("Roughrider") settled a payment due to earn its 50% interest in the Genesis property in the form of shares (note 6). The Company received payment of 2,500,000 shares of Roughrider on August 31, 2017. The fair value of the shares on this day was \$137,500.

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

## 4. Other Receivables

	September 30, 2017	September 30, 2016
Due from Commander Resources Ltd (Note 6)	42,339	-
Other miscellaneous receivables	51,804	34,931
Total other receivables	\$ 94,143	\$ 34,931

Other miscellaneous receivables as at September 30, 2017 pertains to monies due from Dunnedin Ventures Inc. for reimbursement of wages for use of the Company's staff. For 2016 the receivables pertained to the sale of jet fuel.

# Kivalliq Energy Corporation

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Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

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## 5. Equipment

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
<b>Cost</b>					
Balance at September 30, 2015	\$ 31,595	\$ 33,116	\$ 937,263	\$ 58,513	\$ 1,060,487
Additions	-	2,514	-	-	2,514
Disposals	-	(10,911)	(12,038)	-	(22,949)
Balance at September 30, 2016	\$ 31,595	\$ 24,719	\$ 925,225	\$ 58,513	\$ 1,040,052
<b>Accumulated depreciation</b>					
Balance at September 30, 2015	\$ 19,637	\$ 23,075	\$ 567,858	\$ 51,066	\$ 661,636
Depreciation	2,392	3,389	73,881	7,447	87,109
Disposals	-	(9,633)	(8,703)	-	(18,336)
Balance at September, 2016	\$ 22,029	\$ 16,831	\$ 633,036	\$ 58,513	\$ 730,409
<b>Net book value at September 30, 2016</b>					
	<b>\$ 9,566</b>	<b>\$ 7,888</b>	<b>\$ 292,189</b>	<b>\$ -</b>	<b>\$ 309,643</b>

	Furniture & Equipment	Computer Equipment	Field Equipment	Leasehold Improvements	Total
<b>Cost</b>					
Balance at September 30, 2016	\$ 31,595	\$ 24,719	\$ 925,225	\$ 58,513	\$ 1,040,052
Disposals	-	-	-	(58,513)	(58,513)
Balance at September 30, 2017	\$ 31,595	\$ 24,719	\$ 925,225	\$ -	\$ 981,539
<b>Accumulated depreciation</b>					
Balance at September 30, 2016	\$ 22,029	\$ 16,831	\$ 633,036	\$ 58,513	\$ 730,409
Depreciation	1,913	2,366	58,439	-	62,718
Disposals	-	-	-	(58,513)	(58,513)
Balance at September, 2017	\$ 23,942	\$ 19,197	\$ 691,475	\$ -	\$ 734,614
<b>Net book value at September 30, 2017</b>					
	<b>\$ 7,653</b>	<b>\$ 5,522</b>	<b>\$ 233,750</b>	<b>\$ -</b>	<b>\$ 246,925</b>

## 6. Exploration and Evaluation Assets

Details are as follows:

	Acquisition Costs	Exploration Costs	Cumulative as at September 30, 2017	Cumulative as at September 30, 2016
Angilak, Nunavut	\$ 846,470	\$ 54,470,287	\$ 55,316,757	\$ 55,611,407
Baffin Gold, Nunavut	131,718	907,437	1,039,155	-
Baker Basin, Nunavut	205,130	83,920	289,050	288,643
Genesis Property, Saskatchewan and Manitoba	-	97,398	97,398	227,553
Hatchet Lake, Saskatchewan	-	565,448	565,448	587,420
Total	\$ 1,183,318	\$ 56,124,490	\$ 57,307,808	\$ 56,715,023

### General

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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## 6. Exploration and Evaluation Assets - Continued

### **Angilak, Nunavut**

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

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

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

- Kivalliq issued 1,000,000 common shares from treasury to NTI staged over 36 months beginning after final TSX Venture Exchange approval for the spin-out transaction. Upon completion of a feasibility study on any portion of the property, NTI has the option of taking either a 25% participating interest or a 7.5% net profits royalty in the specific area subject to the feasibility study.
- Upon completion of a National Instrument 43-101 compliant report that outlines a measured resource of at least 12 million pounds of uranium, Kivalliq will pay NTI a cash sum of \$1,000,000.

As a consequence of the land claims settlement, the Inuit Owned Lands are not subject to royalty obligations to the Government of Canada, but instead are subject to an underlying 12% net profits royalty payable on all minerals to NTI. During periods of positive operating revenue, gross uranium revenue shall be calculated as 130% of the value of the product. Starting December 31, 2008, Kivalliq is to pay annual advance royalty payments to NTI in the sum of \$50,000 annually (2008 – 2014 paid). NTI has allowed the Company to defer the annual advance royalty payments due on December 31, 2015, 2016, and 2018 to December 31, 2019, 2020 and 2021, respectively. The \$50,000 payments originally due December 31, 2015 and December 31, 2016 are recorded as a long-term liability. The payment for December 31, 2017 was paid subsequent to September 30, 2017.

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

### **Baffin Gold, Nunavut**

In May 2017, the Company acquired mineral tenures for a land package on central Baffin Island. This land package consolidates several types of mineral tenures into a single property called the “Baffin Gold Property”.

The Baffin Gold Property consists of:

- 100% interest in an Inuit Owned Lands (“IOL”) parcel acquired through a Mineral Exploration Agreement (“MEA”) Kivalliq signed directly with NTI;
- 100% interest in several prospecting permits Kivalliq acquired through staking;
- Option Agreement with Commander Resources Ltd. (“Commander”) for 100% interest in certain mineral claims and IOL parcels through an MEA Commander signed with NTI.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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## 6. Exploration and Evaluation Assets – Continued

Under terms of both the Kivalliq and Commander MEA's with NTI, NTI will receive:

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

Subsequent to year-end an annual fee amount of \$145,278 was paid to NTI.

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

- Commander will receive a cash payment of C\$10,000 (paid);
- Commander will receive an aggregate of 500,000 Kivalliq shares within 12 months (250,000 shares issued);
- Kivalliq will fulfill Commanders obligations to NTI for Year 1;
- Commander will receive 500,000 Kivalliq shares at a Bankable Feasibility Study;
- Commander will receive a cash payment up to \$6 million upon commencement of Commercial Production;
- Commander will retain a 0.25% to 0.5% NSR royalty on Commander's Baffin Gold Property optioned lands;
- As part of a data purchase agreement, Kivalliq will grant Commander a 0.25% NSR royalty on certain of Kivalliq's Baffin mineral tenures; and
- Terms of the Baffin Gold Property Option Agreement may be adjusted up until the date of any first royalty payment to reflect the possible impact of any past commercial agreements or interests.

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

The Baker Basin Property is located south of the hamlet of Baker Lake, Nunavut Territory, Canada. Kivalliq acquired 100% of Pacific Ridge Exploration Ltd's ("PEX") 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 Exploration Limited ("Roughrider") on the Genesis Property. Roughrider can acquire up to an 85% interest in the Genesis Property in exchange for 3,939,656 common shares, \$1,000,000 cash, and \$5,000,000 in exploration expenditures over four years. Upon acquisition of an 85% interest in the Genesis Property by Roughrider, Kivalliq's remaining 15% interest will be carried through to completion of a bankable feasibility study and a recommendation from the board of Roughrider to proceed to commercial production. Pursuant to the Mining Option Agreement, Kivalliq acquired ownership of 1,969,828 common shares of Roughrider.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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

On December 22, 2015, the Company and Roughrider amended certain terms in the Mining Option Agreement which included a reduction in minimum exploration expenditures and a one-year extension to all phases of the agreement. On the amendment date Roughrider paid the Company \$400,000, of which \$200,592 was recorded to exploration and evaluation assets to bring the Genesis carrying value down to \$nil. The remaining \$199,408 was recorded to recovery on exploration and evaluation assets in the statement of operations and comprehensive loss during the year ended September 30, 2016.

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

On August 31, 2017 Roughrider earned a 50% interest in the Genesis Property by making a final payment to the Company of \$175,000. The payment was settled via common shares of Roughrider, with the Company receiving 2,500,000 shares of Roughrider (Note 3).

Roughrider can increase its ownership in the Genesis Property to 85% by making cash payments to the Company of \$250,000 and \$450,000 on or before August 31, 2018 and August 31, 2019 respectively, and incurring exploration expenditures on the Genesis Property of \$2,500,000 on or before August 31, 2019.

### ***Hatchet Lake, Saskatchewan***

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

- Kivalliq made a cash payment upon execution of the agreement of \$220,000, subject to all claims being in good standing as of the closing date;
- Rio Tinto transferred a 100% interest in the Hatchet Lake Property to Kivalliq;
- Kivalliq granted Rio Tinto a 2% net smelter return ("NSR") royalty on the Hatchet Lake Property, with Kivalliq holding a buy-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).

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

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

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## 7. Share Capital

As at September 30, 2017, there were an unlimited number of common voting shares without par value authorized.

### a) Private Placements

On July 6, 2016, the Company completed a financing in the amount of \$400,000 by issuing 4,000,000 flow-through ("FT") units at a price of \$0.10 per FT unit. Each FT unit consists of one FT common share and one-half of one 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 \$0.15 per warrant share.

The warrants attached to this issuance have been valued at \$49,533 based upon the Black-Scholes Method using the following assumptions noted below.

Risk-free interest rate	0.48%
Expected dividend yield	0%
Share price	\$0.09
Expected stock price volatility	85.6%
Average expected warrant life	2 years

As part of the financing, 240,000 finders' warrants were issued exercisable at \$0.15 for a period of 24 months from the closing of the private placement. The Company has recorded the fair value of these finders warrants as share issuance costs. The finders' warrants attached to this issuance have been valued at \$6,950 based upon the Black-Scholes Method using the assumptions noted above.

On January 16, 2017, the Company completed a non-brokered Private Placement of 25,925,000 units at \$0.08 for \$2,074,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is convertible into a common share at \$0.15 for five years. The warrants attached to this issuance have been valued at \$416,969 based upon the Black-Scholes Method using the following assumptions: risk-free interest rate 1.16%; expected dividend yield 0%; expected stock price volatility 78%; and an average expected life of 5 years.

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

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

# Kivalliq Energy Corporation

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Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

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## 7. Share Capital - Continued

### b) Warrants

The changes in warrants issued are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, September 30, 2015	28,752,569	\$0.36
Issued	2,240,000	\$0.15
Expired	(17,750,697)	\$0.47
Outstanding warrants, September 30, 2016	13,241,872	\$0.17
Issued	15,230,500	\$0.15
Expired	(11,001,872)	\$0.18
<b>Outstanding Warrants, September 30, 2017</b>	<b>17,470,500</b>	<b>\$0.15</b>

At September 30, 2017, warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
July 6, 2018	\$0.15	2,000,000	0.76
July 6, 2018	\$0.15	240,000	0.76
January 16, 2022	\$0.15	14,518,000	4.30
February 17, 2022	\$0.15	712,500	4.39
<b>Weighted average of exercise price and remaining contractual life</b>	<b>\$0.15</b>	<b>17,470,500</b>	<b>3.85</b>

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

# Kivalliq Energy Corporation

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## 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, 2015	8,875,000	\$0.25
Cancelled	(535,000)	\$0.35
Expired	(130,000)	\$0.50
Outstanding options, September 30, 2016	8,210,000	\$0.24
Granted	10,900,000	\$0.10
Expired	(1,220,000)	\$0.33
<b>Outstanding options, September 30, 2017</b>	<b>17,890,000</b>	<b>\$0.15</b>

At September 30, 2017 the following stock options were outstanding:

Expiry Date	Weighted Average Exercise Price	Issued Number of Options	Vested and Exercisable Number of Options	Weighted Average Remaining Contractual Life in Years
September 12, 2019	\$0.22	6,990,000	6,990,000	1.95
July 6, 2022	\$0.10	10,900,000	-	4.77
<b>Weighted average of exercise price and remaining contractual life</b>	<b>\$0.15</b>	<b>17,890,000</b>	<b>6,990,000</b>	<b>3.67</b>

The fair value of stock options for all options issued during 2017 was estimated at the grant date based on the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.50%
Expected dividend yield	0%
Share price	\$0.10
Expected stock price volatility	81.08%
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.



# Kivalliq Energy Corporation

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## 7. Share Capital – Continued

### d) Flow-through Share Premium Liability

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

## 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, 2017 was \$430,252 (2016 - \$269,474) and was comprised of the following:

	Year ended September 30, 2017	Year ended September 30, 2016
Salaries and consulting fees	\$ 300,566	\$ 256,103
Directors fees	58,200	-
Share-based compensation	51,476	-
Non-cash benefits	20,010	13,371
Total remuneration	\$ 430,252	\$ 269,474

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

During the year ended September 30, 2017, the Company reimbursed companies with common directors and key management \$35,429 (2016 - \$82,339) of which \$nil (2016-\$48,596) was for the termination of previous employees, and \$35,429 (2016 - \$33,743) was for travel and office costs incurred on behalf of the Company.

The balance payable to related parties at September 30, 2017 was \$25,500 (September 30, 2016 - \$nil) 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.

As at September 30, 2017 \$174,600 (2016-\$nil) was included in prepaid expenses.

During the year ended September 30, 2016, the Company reimbursed \$58,647 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. As of February 1, 2016, the Company no longer had any related party transactions with the AMRG.

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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## 8. Related Party Transactions – *Continued*

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.

### *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, 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, 2017 was \$1,567,700 (September 30, 2016 - \$895,456).

### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2017, Kivalliq had a cash and cash equivalents balance of \$1,097,072 (September 30, 2016 - \$395,719) to settle accounts payable and accrued liabilities of \$231,374 (September 30, 2016 - \$107,602). All of Kivalliq's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that Kivalliq has sufficient funds to meet its obligations as they become due.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

# Kivalliq Energy Corporation

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Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

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## 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, 2017, Kivalliq had \$1,003,945 (September 30, 2016 – \$257,892) in term deposits.

### (b) Foreign currency risk

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

### (c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. The Company maintains certain investments in marketable securities which are measured at fair value, being the closing price of each equity investment at the statement of financial position 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 \$32,198 as at September 30, 2017 (September 30, 2016 - \$42,852).

## 10. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain flexible capital structure for its projects for the benefit of its stakeholders.

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and 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, 2017. The Company is not subject to externally imposed capital requirements.

## 11. Segment Information

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

# Kivalliq Energy Corporation

(An Exploration Stage Company)

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

## 12. Income Taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2016 – 27%) to the income for the year and is reconciled as follows:

	Year Ended September 30, 2017	Year Ended September 30, 2016
Loss before income taxes	\$ (679,272)	\$ (332,110)
Statutory Canadian federal and provincial tax rates	27.00%	27.00%
Expected tax (recovery)	(183,400)	(89,670)
Non-deductible (deductible) expenses		
Permanent difference	19,829	(104,775)
Flow-through share renunciation	-	262,997
Share issue cost	(36,600)	-
Adjustment to prior years provision versus statutory tax returns	36,329	-
Deferred income tax expense (recovery)	\$ (163,842)	\$ 68,552

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

	2017	2016
Non-capital losses	\$ 3,072,899	\$ 2,844,732
Investment tax credit	1,499,602	1,499,602
Equipment	228,435	210,256
Share issuance costs	38,574	23,050
Deferred tax asset	4,839,510	4,577,640
Exploration and evaluation assets	(8,212,602)	(8,115,903)
Marketable securities	-	(22,904)
Net deferred tax liability	\$ (3,373,092)	\$ (3,561,167)

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:

	2017	Expiry Date Range	2016	Expiry Date Range
Temporary differences				
Exploration and evaluation assets	\$ (30,461,000)	No expiry date	\$ (30,058,901)	No expiry date
Investment tax credit	2,054,000	2030 to 2034	2,054,250	2030 to 2034
Marketable securities	22,000	No expiry date	(169,659)	No expiry date
Equipment	846,000	No expiry date	778,726	No expiry date
Share issuance costs	143,000	2038 to 2041	85,370	2037 to 2040
Non-capital losses	11,381,000	2028 to 2037	10,536,042	2028 to 2036

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