

Condensed Consolidated Interim Financial Statements  
[Expressed in United States dollars]

**Khot Infrastructure Holdings, Ltd.**

For the three months ended March 31, 2017

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## **Management’s Responsibility for Financial Reporting**

The condensed consolidated Interim financial statements of Khot Infrastructure Holdings, Ltd. have been prepared by and are the responsibility of the Company’s management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect management’s best estimates and judgements based on currently available information.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company’s assets are safeguarded, transactions are authorized and financial information is reliable.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfils its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to shareholders.

“Donald Padgett”  
President and Chief Executive Officer

“Alan Tam”  
Chief Financial Officer

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Khot Infrastructure Holdings, Ltd.**  
**Condensed Consolidated Interim Statements of Financial Position**

(expressed in United States dollars)

	Notes	As at March 31, 2017	As at December 31, 2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 11,280	\$ 12,780
Prepayment		6,272	7,784
<b>Total current assets</b>		<b>17,552</b>	<b>20,564</b>
Non-current assets			
Investments	5	11,351	11,351
<b>Total non-current assets</b>		<b>11,351</b>	<b>11,351</b>
<b>Total assets</b>		<b>\$ 28,903</b>	<b>\$ 31,915</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	6	\$ 483,618	428,416
Road repair provision		293,474	293,474
Loan and interest payable	12	16,397	16,397
<b>Total current liabilities</b>		<b>793,489</b>	<b>738,287</b>
<b>Shareholders' equity</b>			
Share capital	7	8,049,254	8,049,254
Other reserves		1,230,289	1,230,289
Deficit		(9,688,497)	(9,630,283)
		<b>(408,954)</b>	<b>(350,740)</b>
Non Controlling Interests		<b>(355,632)</b>	<b>(355,632)</b>
<b>Total equity</b>		<b>(764,586)</b>	<b>(706,372)</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 28,903</b>	<b>\$ 31,915</b>

The notes to the condensed consolidated interim financial statements are an integral part of these statements.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 4, 2017, and are signed on its behalf by:

signed "James Passin"  
 \_\_\_\_\_  
 Director

signed "Don Padgett"  
 \_\_\_\_\_  
 Director

**Khot Infrastructure Holdings, Ltd.**  
**Consolidated Statements of Comprehensive Loss**

(expressed in United States dollars)

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016
<b>Other income</b>			
Interest and other income		\$ -	\$ 96
		-	96
<b>Expenses</b>			
Management fees		24,066	22,780
Promotion & investor conference		-	18,320
Regulatory, exchange, AGM, press release and transfer agent fees		7,177	2,024
Professional fees		12,279	19,863
Finance costs		347	489
Depreciation		-	1,212
Foreign exchange loss		1,500	(1,987)
Other expenses		12,844	43,359
		<u>58,214</u>	<u>106,060</u>
Loss before income tax		(58,214)	(105,964)
Income tax expense		-	-
<b>Consolidated loss after income tax expense</b>		<u>\$ (58,214)</u>	<u>\$ (105,964)</u>
<b>Other comprehensive loss</b>			
Exchange difference on translating foreign operations		-	(1,588)
<b>Total comprehensive loss for the year</b>		<u>\$ (58,214)</u>	<u>\$ (104,376)</u>
Net loss attributed to:			
Equity holders of the parent		\$ (58,214)	\$ (98,753)
Non-controlling interests		-	(7,211)
		<u>\$ (58,214)</u>	<u>\$ (105,964)</u>
Total comprehensive loss attributed to:			
Equity holders of the parent		\$ (58,214)	\$ (97,562)
Non-controlling interests		-	(6,814)
		<u>\$ (58,214)</u>	<u>\$ (104,376)</u>
<b>Loss per common share:</b>			
Basic and diluted		<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares outstanding:			
Basic and diluted		<u>65,302,351</u>	<u>64,738,484</u>

The notes to the condensed consolidated interim financial statements are an integral part of these statements

**Khot Infrastructure Holdings, Ltd.**  
**Condensed Consolidated Interim Statements of Changes in Equity**

(expressed in United States dollars)

	Number of common shares (#)	Reserves							Non - Controlling Interest	Shareholders' equity
		Share Capital	Foreign currency translation reserve	Warrants	Share based payment reserve	Deficit	Attributable to Equity Holders of the Parent			
<b>Balance at December 31, 2015</b>	64,738,484	\$ 8,005,895	\$ (44,816)	650	\$ 1,333,619	\$ (9,132,211)	\$ 163,137	\$ (211,658)	\$ (48,521)	
Total comprehensive loss for the period	-	-	1,191	-	-	(98,753)	(97,562)	(6,814)	(104,376)	
<b>Balance at March 31, 2016</b>	64,738,484	\$ 8,005,895	\$ (43,625)	650	\$ 1,333,619	\$ (9,230,964)	\$ 65,575	\$ (218,472)	\$ (152,897)	
<b>Balance at December 31, 2016</b>	65,302,351	\$ 8,049,254	\$ (103,980)	650	\$ 1,333,619	\$ (9,630,283)	\$ (350,740)	\$ (355,632)	\$ (706,372)	
Total comprehensive loss for the period	-	-	-	-	-	(58,214)	(58,214)	-	(58,214)	
<b>Balance at March 31, 2017</b>	65,302,351	\$ 8,049,254	\$ (103,980)	650	\$ 1,333,619	\$ (9,688,497)	\$ (408,954)	\$ (355,632)	\$ (764,586)	

The notes to the condensed consolidated interim financial statements are an integral part of these statements.

**Khot Infrastructure Holdings, Ltd.**  
**Condensed Consolidated Interim Statements of Cash Flows**

(expressed in United States dollars)

	<b>Three months ended March 31, 2017</b>	Three months ended March 31, 2016
<b>Cash flow from operating activities</b>		
Loss for the period	\$ (58,214)	\$ (105,964)
Adjustments to reconcile loss to net cash used in operating activities:		
Change in provision	-	(8,455)
Unrealized foreign exchange	1,500	(1,195)
Depreciation	-	1,212
Change in non-cash working capital balances:		
Accounts receivable	-	12,844
Accounts payable and accrued liabilities	55,202	65,825
Prepayments	1,512	(15,857)
<b>Total cash used in operating activities</b>	<b>(0)</b>	<b>(51,590)</b>
<b>Effect of foreign exchange on cash</b>	<b>\$ (1,500)</b>	<b>\$ (8,138)</b>
<b>Total decrease in cash during the period</b>	<b>\$ (1,500)</b>	<b>\$ (59,728)</b>
<b>Cash and cash equivalents - Beginning of the period</b>	<b>12,780</b>	<b>32,470</b>
<b>Cash and cash equivalents - End of the period</b>	<b>\$ 11,280</b>	<b>\$ (27,258)</b>
<b>Cash interest payments made during the period</b>	<b>\$ -</b>	<b>\$ -</b>

The notes to the condensed consolidated interim financial statements are an integral part of these statements.



## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **1. CORPORATE INFORMATION**

Khot Infrastructure Holdings, Ltd., (formerly Undur Tolgoi Minerals Inc.) ["KOT" or the "Company"] was incorporated on December 22, 2010 under the Business Corporations Act of British Columbia as a private company. KOT is engaged in the construction and maintenance of roads and bridges in Mongolia.

On December 18, 2013, Undur Tolgoi Minerals Inc. completed the continuance from the laws of the Province of British Columbia to the laws of the British Virgin Islands. Effective on January 7, 2014, the Company changed its name from Undur Tolgoi Minerals Inc. to Khot Infrastructure Holdings, Ltd. to have its name reflect the Company's new focus on cash generating, non-resource infrastructure projects within Mongolia.

The Company's common shares are listed and posted for trading on the Canadian Securities Exchange (the "CSE") under the symbol "KOT"; however, on May 5, 2017, the Company's common shares were suspended from trading by the CSE and a cease trade order was issued against the Company by the Ontario Securities Commission for failure to file annual audited financial statements and accompanying management's discussion and analysis and CEO and CFO certifications.

The registered office of KOT is Sea Meadow House, Blackburne Highway, PO Box 116, Road Town, Tortola, British Virgin Islands.

KOT has a 100% interest in, Jucca Holdings Limited ["Jucca"], Wishland Properties Limited ["Wishland"], Great Hoard Holdings S. à r. l. ["GHH"].

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### **2. BASIS OF PREPARATION**

#### **(a) Statement of compliance**

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB").

The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgements in applying the Company's accounting policies. The areas involving higher degrees of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

These consolidated financial statements were authorized for issue by the Board of Directors on August 4, 2017.

#### **(b) Basis of measurement, functional currency and going concern**

These consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale financial instruments which are measured at fair value, and are expressed in United States dollars, which is the Company's functional and presentation currency. The functional currency for each consolidated entity is determined by the currency of the primary economic environment in which it operates.

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in United States dollars)

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### **2. BASIS OF PREPARATION (Continued)**

#### **(b) Basis of measurement, functional currency and going concern (Continued)**

##### Going concern

The assessment of the Company's ability to continue as a going concern and ability to fund potential infrastructure construction contracts, involves significant judgements based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

The Company's business of infrastructure development in Mongolia involves a high degree of risk and there can be no assurance that current construction permit applications will ultimately result in profitable infrastructure development operations. The Company's continued existence is dependent upon its ability to secure development contracts and the achievement of profitable operations, or the ability of the Company to raise additional financing. Changes in future conditions could require material write-downs to the carrying values of the Company's assets, in particular its trade receivables. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations, and political uncertainty.

These consolidated financial statements have been prepared on a basis which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

The Company will require additional financing, through various means including but not limited to equity financing, to continue to pursue infrastructure development contracts in Mongolia, and to meet its general and administrative costs. There is no assurance that the Company will be successful in raising the additional required funds. These conditions represent a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern. In the event that Company is not able to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classification used.

The Company has had a history of losses and has accumulated a \$9,688,497 deficit as at March 31, 2017 and has a working capital deficiency of \$775,937 (December 2016 - \$717,723), including \$11,280 (December 2016 - \$12,780) in cash and cash equivalents. As at March 31, 2017, the Company had abandoned its infrastructure activities in Mongolia and has begun to assess other business ventures.

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at March 31, 2017 and December 31, 2016.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all of the following:

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(a) Basis of consolidation (Continued)**

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intracompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

The subsidiaries of the Company at March 31, 2017 and their principal activities are described below:

Name of subsidiary	Place of incorporation	Ownership interest	Principal activity
Jucca Holdings Limited	British Virgin Islands	100%	Holding Company
Wishland Properties Limited	British Virgin Islands	100%	Holding Company
Great Hoard Holdings S.a.r.l	Luxembourg	100%	Holding Company
Ashid Munkhiin Zam International LLC	Mongolia	75%	Infrastructure development
Ashid Munkhiin Zam LLC	Mongolia	75%	Infrastructure development

On October 1, 2016, the Company abandoned its operations in Mongolia and has made its infrastructure development operations available for sale.

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(b) Business combinations**

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes at fair value all of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred and the amount recognized for non-controlling interest exceeds the net amount of the identifiable assets acquired and the liabilities assumed measured at fair value (the “net identifiable assets”), the difference is treated as goodwill. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses.

Goodwill is reviewed annually for impairment or when there is an indication of potential impairment. If the fair value of the Company’s share of the net identifiable assets exceeds the fair value of the consideration transferred and non-controlling interest at the acquisition date, the difference is immediately recognized in comprehensive income (loss). If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquiree is re-measured to fair value as at the acquisition date through net income (loss). The Company does not currently have goodwill.

Acquisition costs are expensed as incurred in comprehensive income (loss). Costs associated with the issuance of equity are charged to the relevant account within equity.

#### **(c) Foreign currency translation**

The consolidated financial statements are presented in United States dollars. The Company has foreign operations in Luxembourg and Mongolia.

The functional currencies of the Company and its subsidiaries are as follows:

<u>Company</u>	<u>Functional Currency</u>	
Khot Infrastructure Holding, Ltd.	United States Dollar	USD
Jucca Holdings Limited	United States Dollar	USD
Wishland Properties Limited	United States Dollar	USD
Great Hoard Holdings S.a.r.l	United States Dollar	USD
Ashid Munkhiin Zam International LLC	Mongolian Tugrik	MNT
Ashid Munkhiin Zam LLC	Mongolian Tugrik	MNT

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange at the reporting date. All differences are taken to the consolidated statement of comprehensive loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(c) Foreign currency translation (Continued)**

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Exchange differences resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries.

#### **(d) Accounting policies**

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of March 31, 2017. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2016. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2017 could result in restatement of these unaudited condensed consolidated interim financial statements.

#### **(e) Standards, amendments and interpretations**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company has not yet assessed the impact of these new standards on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective. The following are effective for annual periods beginning on or after 1 January 2018.

- IFRS 9 (Final version) *Financial Instruments*
  - IFRS 15 *Revenue from Contracts with Customers*
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### **4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Company has identified the following areas where significant judgements, estimates and assumptions are required. Changes in these assumptions may materially affect the financial position or financial results reported in future periods. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)**

The following are significant management judgements in applying the accounting policies of the Company and have the most significant effect on the consolidated financial statements.

#### Contingencies

By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgements and the use of estimates regarding the outcome of future events.

#### Functional currency

The functional currency for the parent entity, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. The parent entity has determined the functional currency of the Company is the United States dollar. Determination of functional currency may involve certain judgements to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

#### Road repair provision

The Company provides for estimated repair obligations relate to the remaining costs to complete ongoing road constructions projects based on the estimated percentage completion of the project, inspection completed by Mongolian authority on the road construction project, as well as faults in the construction of the road noted by management due to poor weather, or defects in the materials used. Management continues to monitor the construction in process in determining the need for road repair provisions.

The Company's provision for road repair could materially change and may result in significant changes to road repair provision balances as management continues to monitor the completion of the construction projects.

#### Investments in private companies

The Company provides for changes in valuation in its investments that do not have quoted prices in active markets. Mogul Venture Corp is an investment in the common shares of a private company and as a result there was no quoted price in active markets. Management estimates the fair value of the investment based primarily on the changes in the value of underlying assets own by those companies at each reporting period. The investment in Mogul Ventures Corp was measured against the most recent external financing completed by the company, and subsequently adjusted for changes in coal prices.

#### Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own share price, the expected forfeiture, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in United States dollars)

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### **5. INVESTMENTS**

On November 18, 2015, Khot has sold its 5.05% interest in Anya-2 to Mogul Ventures Corp. (“Mogul”), a Canadian private company. In exchange for the Company’s interest in Anya-2, Khot has received a 5.05% of a 2.5% net smelter royalty for any production of metals from the Ochiryn Bulag project, as well as 80,800 common shares of Mogul. This consideration was valued at \$10,909 based on the last share price that Mogul shares were issued at, adjusted for subsequent market movements.

Investments:

	<b>March 31, 2017</b>	December 31, 2016
	\$	\$
Other investments	<b>442</b>	442
Investment in Mogul	<b>10,909</b>	10,909
	<b>11,351</b>	11,351

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### **6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31, 2017</b>	December 31, 2016
	\$	\$
Trade payables	<b>261,073</b>	236,187
Accrued liabilities	<b>99,709</b>	69,394
Due to related parties	<b>122,836</b>	122,836
	<b>483,618</b>	428,416

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### **7. SHARE CAPITAL**

#### **Authorized share capital**

The authorized capital of the company consists of unlimited common shares without par value.

The holders of common shares are entitled to receive dividends (if any) which are declared from time to time, and are entitled to one vote per share at KOT’s shareholder meetings. All shares are ranked equally with regards to the Company's residual assets.

#### **Issued share capital**

At March 31, 2017, there was 65,302,351 (December 31, 2016 - 65,302,351) common shares outstanding.

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

### **7. SHARE CAPITAL (Continued)**

#### **Warrants**

The following table reflects the continuity of warrants:

	Number of warrants	Weighted Average Exercise Price CND \$
Balance, beginning of the period	281,934	0.20
Expired during the period	(281,934)	0.20
Balance, end of the period	-	-

During the quarter, 281,934 warrants with an exercise price of \$0.20 expired unexercised.

#### **Warrant liability**

	Number of warrants	Value of warrants \$
Balance, beginning of the period	281,934	-
Expired warrants	(281,934)	-
Balance, end of the period	-	-

#### **Stock options**

Under the terms of the Company's stock option plan (the "Plan") all options are granted with an exercise price above the closing market price on the day immediately preceding the date of grant. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 10 years. Options issued to consultants who perform investor relations activities will be subject to a vesting schedule whereby no more than 25% of the options granted may vest in any three month period. The maximum number of options authorized for issue shall be 10% of the outstanding shares in issue at the date of the option grant.

The Company records a charge to the statement of comprehensive loss using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to historic traded daily closing share prices at the date of issuance.

Option pricing models require the inputs of highly subjective assumptions including the expected price volatility. Changes to the subjective input assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.



**Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in United States dollars)

**7. SHARE CAPITAL (Continued)****Stock options (Continued)**

The following table provides detailed information about stock options outstanding as at March 31, 2017

<b>Expiry Date</b>	<b>Exercise Price CND</b>	<b>Options Outstanding</b>	<b>Weighted Average Remaining contractual Life (years)</b>	<b>Options Vested</b>	<b>Options unvested</b>
December 31, 2017	\$ 0.10	150,000	0.97	150,000	-
January 8, 2019	\$ 0.25	1,950,000	2.02	1,950,000	-
December 3, 2020	\$ 0.20	775,000	3.93	775,000	-
<b>Total</b>		<b>2,875,000</b>	<b>2.48</b>	<b>2,815,000</b>	<b>-</b>

Stock option activity is as follows:

	<b>Number</b>	<b>Weighted- Average exercise price CND \$</b>
<b>Outstanding, December 31, 2015</b>	<b>6,270,000</b>	<b>0.24</b>
Expired	(3,095,000)	0.25
Forfeited	(300,000)	0.24
<b>Outstanding, December 31, 2016 and March 31, 2017</b>	<b>2,875,000</b>	<b>0.24</b>

**Share based payment reserve**

Amounts recorded in share based payment reserve in shareholders' equity relate to the fair value of stock options.

Activity with respect to the share based payment reserve is summarized as follows:

	<b>March 31, 2017 \$</b>	<b>December 31, 2016 \$</b>
Balance, beginning of the period	<b>1,333,619</b>	1,333,619
Stock-based compensation	-	-
<b>Balance, end of the period</b>	<b>1,333,619</b>	1,333,619

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **8. RELATED PARTY TRANSACTIONS**

Related parties include the Board of Directors, close family members, key management personnel, significant shareholders and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

#### Transactions with Key management personnel

Key management of the Company are members of the Board of Directors, the Chief Executive Officer, and Chief Financial Officer. Key management remuneration includes the following:

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<i>Short-term Key management benefits</i>	\$	\$
Compensation including salary	<b>24,066</b>	32,020

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1) Management fees include \$15,000 (\$15,000 – 2016) paid to Don Padgett, the Company's Chief Executive Officer. As at March 31, 2017, \$64,812 (\$Nil – 2016) payables were due to Don Padgett.

2) Management fees include \$Nil (\$7,780 – 2016) paid to Sabino Di Paola, the Company's former Chief Financial Officer and Corporate Secretary. As at March 31, 2017, accounts payable of \$17,170 (\$Nil – 2016) were due to Sabino Di Paola.

3) Consulting and advisory fees include \$9,066 (\$9,240 – 2016) paid to Erin Chutter, one of the directors of the Company. As at March 31, 2017, \$32,900 (\$Nil – 2016) payable were due to Erin Chutter.

All related party transactions were within the normal course of operations and have been recorded at amounts agreed to by the transacting parties.

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### **9. SEGMENT REPORTING**

As at March 31, 2017, the Company had one reportable operating segment of general and administrative expenditures. All of the Company's non-current assets are located in Canada.

The Company has the following noncurrent assets located in Mongolia:

	<b>March 31, 2017</b>		December 31, 2016
Investments	\$	442	\$ 442

The Company has the following noncurrent assets located in Canada:

	<b>March 31, 2017</b>		December 31, 2016
Investment in Mogul Venture	\$	10,909	\$ 10,909

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## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in United States dollars)

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### **10. CAPITAL MANAGEMENT**

The Company's capital structure has been defined by Management as being comprised of shareholders' equity, which comprises share capital and other components of equity and accumulated deficit, which at March 31, 2017, totals (\$408,954) (December 2016 – \$350,740). The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets and its ability to meet its financial obligations and to finance its future infrastructure activities and general corporate costs. This is achieved by the Board of Directors' review and acceptance of infrastructure budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other funding.

The Company monitors its capital structure using annual forecasted cash flows, infrastructure budgets and targets for the year.

The Company is dependent upon external financing to fund its activities. In order to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company to maintain flexibility while achieving the objectives stated above as well as supporting future business opportunities. To manage the capital structure the Company may adjust its operating expenditure plans, or issue new common shares.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's Management to sustain future development of the business.

There were no changes in the Company's approach to capital management for the three months ended March 31, 2017 and December 31, 2016. The Company is not subject to externally imposed capital requirements or covenants.

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### **12. FINANCIAL RISK MANAGEMENT**

The carrying values of the Company's financial instruments are classified into the categories below. Fair values are determined either directly by reference to published price quotations in an active market, or from valuation techniques using observable inputs.

	<b>March 31, 2017</b>	December 31, 2016
	\$	\$
Available for sale investments	<b>11,351</b>	11,351
Current loans and receivables	-	12,780
Loan and interest payable	<b>(16,397)</b>	(16,397)
Other financial liabilities <sup>1</sup>	<b>(483,618)</b>	(428,416)

<sup>1</sup> accounts payable and accrued liabilities

<sup>2</sup> cash and current accounts receivable

## **Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017

(Expressed in United States dollars)

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### **12. FINANCIAL RISK MANAGEMENT (Continued)**

The three levels of the fair value hierarchy are:

- [i] Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities
- [ii] Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly
- [iii] Level 3 – Inputs that are not based on observable market data

As at March 31, 2017 and December 31, 2016, the Company's financial instruments which are measured at fair value on a recurring basis were cash and investments. Cash was classified as Level 1 financial instrument.

The investment in Mogul Venture Corp is an investment in the common shares of a private company and as a result there was no quoted price in active markets. The investment was measured against the most recent external financing completed by the company, and subsequently adjusted for changes in coal prices as at March 31, 2017, and as a result has been classified as a level 3.

The warrants liability is the provision for the Company's warrants denominated in a currency other than the Company's functional currency, and as a result the ultimate settlement on exercising of the warrants varies as the exchange rate between the Company's functional currency and the currency in which the warrants are denominated varies. As a result the warrants are valued based on the Black-Scholes valuation model and have been classified as a level 2.

#### **Risks arising from financial instruments and risk management**

The Company's activities expose it to a variety of risks including interest rate risk, credit risk, liquidity risk and commodity price risk. Reflecting the current stage of development of the Company's various projects, the Company's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan. Risk management is the responsibility of the finance function. Material risks are identified and monitored and are discussed by senior management and with the Audit Committee and the Board of Directors.

##### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's fixed rate current accounts in the bank and borrowings. As of the reporting date, the Company has not adopted sensitivity analysis to measure interest rate risk due principally to the fact that the Company has no floating rate financial assets and liabilities.

##### **Credit risk**

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity periods or due to adverse market conditions. The Company's financial assets exposed to credit risk are primarily composed of cash, and accounts receivable (trade and other).

Maximum exposure is equal to the carrying values of these assets. The Company's cash is held at several large financial institutions.

**Khot Infrastructure Holdings, Ltd.**

Notes to the Condensed Consolidated Interim Financial Statements

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**12. FINANCIAL RISK MANAGEMENT (Continued)****Risks arising from financial instruments and risk management (Continued)****Credit risk (Continued)**

As at March 31, 2017	Neither past due nor impaired		Past due or individually impaired (\$)	Total \$
	High grade \$	Standard grade \$		
Cash and receivables:				
Cash and cash equivalents	11,280	–	–	11,280
Others receivables	–	–	–	–
	<u>11,280</u>	<u>–</u>	<u>–</u>	<u>11,280</u>

None of the Company's financial assets are secured by collateral or other credit enhancements.

**Liquidity risk**

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. The Company actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and cash equivalents to meet its working capital requirements. At March 31, 2017, the Company had a working capital deficit of \$775,937 [December 31, 2016 - \$717,723]. All of the current accounts payable and accrued liabilities, loan and interest payable are due and payable within 90 days. The Company will need to raise additional funding in the next 12 months to be able to meet its current obligations.

**Foreign exchange risk**

During the year the Company has subsidiaries in various jurisdiction where many of its transactions are denominated in the foreign currency. Accordingly, the results of operations and financial position of the Company are subject to changes in the exchange rate between the US dollar ("USD") and the foreign currency.

On October 1, 2016, the Company abandoned its 75% ownership of AMZ and no longer has any operations in Mongolia and no longer engages in transactions denominated in Mongolian Tugrik. The Company is currently looking to sell its interest in AMZ for consideration of \$1.

The Company is listed on a Canadian stock exchange and incurs annual transactions in Canadian dollars to maintain its listing.

The Company's policy is to manage its foreign financial assets and liabilities using the best available foreign currency exchange rates.