

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

Khot Infrastructure Holdings, Ltd.

For the three and six months ended June 30, 2016

Khot Infrastructure Holdings, Ltd.
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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

"Sabino Di Paola"
Chief Financial Officer

August 26, 2016

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 June 30, 2016	As at December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents	5	\$ 37,361	\$ 119,445
Accounts receivable	6	275,811	284,231
Prepayment		8,240	13,324
Total current assets		321,412	417,000
Non-current assets			
Property, plant and equipment		11,909	14,171
Long term receivable	6	44,105	43,363
Investments	7	11,418	11,411
Total non-current assets		67,432	69,046
Total assets		\$ 388,844	\$ 486,046
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 229,230	\$ 177,310
Loan and interest payable	8 & 12	18,900	19,861
Warrants liability	10	823	16,763
Road repair provisions	9	325,364	320,633
Total current liabilities		574,317	534,567
Shareholders' equity			
Share capital	10	8,045,179	8,005,895
Other reserves		1,278,084	1,289,453
Deficit		(9,281,862)	(9,132,211)
		41,401	163,137
Non Controlling Interests		(226,874)	(211,658)
Total equity		(185,473)	(48,521)
Total liabilities and shareholders' equity		\$ 388,844	\$ 486,046
Contingencies	13		

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 26, 2016, 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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Other income					
Interest and other income		\$ 32,636	\$ 2,375	\$ 32,732	\$ 5,513
		<u>32,636</u>	<u>2,375</u>	<u>32,732</u>	<u>5,513</u>
Expenses					
Management fees	13	21,376	25,206	44,156	50,991
Promotion & investor conference		7,638	16,031	25,958	16,301
Regulatory, exchange, AGM, press release and transfer agent fees		5,845	7,563	7,869	10,839
Professional fees		32,798	12,221	52,661	36,560
Finance costs		625	6,543	1,114	14,399
Depreciation		1,299	1,217	2,511	2,448
Foreign exchange loss		(16,168)	107,651	(18,155)	121,308
Other expenses		34,336	76,760	77,695	143,991
		<u>87,749</u>	<u>253,192</u>	<u>193,809</u>	<u>396,837</u>
Loss before income tax		(55,113)	(250,817)	(161,077)	(391,324)
Income tax expense		-	-	-	-
Consolidated loss after income tax expense		\$ (55,113)	\$ (250,817)	\$ (161,077)	\$ (391,324)
Other comprehensive loss					
Exchange difference on translating foreign operations		16,747	(42,077)	15,159	(91,126)
Total comprehensive loss for the year		\$ (71,860)	\$ (208,740)	\$ (176,236)	\$ (300,198)
Net loss attributed to:					
Equity holders of the parent		\$ (50,898)	\$ (216,697)	\$ (149,651)	\$ (343,153)
Non-controlling interests		(4,215)	(34,120)	(11,426)	(48,171)
		<u>\$ (55,113)</u>	<u>\$ (250,817)</u>	<u>\$ (161,077)</u>	<u>\$ (391,324)</u>
Total comprehensive loss attributed to:					
Equity holders of the parent		\$ (63,458)	\$ (184,331)	\$ (161,020)	\$ (274,000)
Non-controlling interests		(8,402)	(24,409)	(15,216)	(26,198)
		<u>\$ (71,860)</u>	<u>\$ (208,740)</u>	<u>\$ (176,236)</u>	<u>\$ (300,198)</u>
Loss per common share:					
Basic and diluted		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding:					
Basic and diluted		65,302,351	64,351,484	65,234,191	64,351,484

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					Deficit	Attributable to Equity Holders of the Parent	Non - Controlling Interest	Shareholders' equity
		Share Capital	Foreign currency translation reserve	Warrants	Share based payment reserve					
Balance at December 31, 2014	64,351,484	\$ 7,983,250	\$ (95,821)	\$ -	\$ 1,212,949	\$ (8,025,888)	\$ 1,074,490	\$ (87,442)	\$ 987,048	
Liquidation of Novametal Resources Inc.	-	-	58,854	-	-	(58,854)	-	-	-	
Total comprehensive loss for the period	-	-	68,345	-	-	(343,153)	(274,000)	(26,198)	(300,198)	
Balance at June 30, 2016	64,351,484	\$ 7,983,250	\$ 31,377	\$ -	\$ 1,212,949	\$ (8,427,895)	\$ 800,490	\$ (113,640)	\$ 686,850	
Units issued	387,000	41,912	-	-	-	-	41,912	-	41,912	
Share issue costs	-	(19,267)	-	650	-	-	(18,617)	-	(18,617)	
Issuance of stock options	-	-	-	-	120,670	-	120,670	-	120,670	
Total comprehensive loss for the period	-	-	(76,193)	-	-	(704,316)	(781,318)	(98,018)	(879,336)	
Balance at December 31, 2015	64,738,484	\$ 8,005,895	\$ (44,816)	\$ 650	\$ 1,333,619	\$ (9,132,211)	\$ 163,137	\$ (211,658)	\$ (48,521)	
Units issued	563,867	39,284	-	-	-	-	39,284	-	39,284	
Total comprehensive loss for the period	-	-	(11,369)	-	-	(149,651)	(161,020)	(15,216)	(176,236)	
Balance at June 30, 2016	65,302,351	\$ 8,045,179	\$ (56,185)	\$ 650	\$ 1,333,619	\$ (9,281,862)	\$ 41,401	\$ (226,874)	\$ (185,473)	

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)

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flow from operating activities		
Loss for the period	\$ (161,077)	\$ (391,324)
Adjustments to reconcile loss to net cash used in operating activities:		
Change in provision	4,731	-
Other income	(32,631)	-
Unrealized foreign exchange	(3,497)	126,474
Depreciation	2,511	2,448
Change in non-cash working capital balances:		
Accounts receivable	8,420	130,945
Accounts payable and accrued liabilities	51,920	(53,286)
Prepayments	5,084	5,169
Total cash used in operating activities	\$ (124,539)	\$ (179,574)
Cash flows from investing activities		
Purchase of equipment	\$ -	\$ (1,200)
Changes in long term receivable	-	(18,491)
Total cash used in investing activities	\$ -	\$ (19,691)
Cash flows from financing activities		
Proceeds from sale of units	\$ 60,447	\$ -
Repayment of loans	-	(200,000)
Total cash provided by financing activities	\$ 60,447	\$ (200,000)
Effect of foreign exchange on cash	\$ (17,992)	\$ (10,360)
Total decrease in cash during the period	\$ (82,084)	\$ (409,625)
Cash and cash equivalents - Beginning of the period	119,445	1,069,037
Cash and cash equivalents - End of the period	\$ 37,361	\$ 659,412
Cash interest payments made during the period	\$ -	\$ -

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

[Expressed in United States dollars]

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 continues to be a reporting issuer with the Ontario Securities Commission and its shares trade on the Canadian Securities Exchange (“CSE”) (formerly, Canadian National Stock Exchange) under the symbol “KOT”.

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”] and a 75% interest in Ashid Munkhiin Zam LLC [“AMZ”] & Ashid Munkhiin Zam International LLC [“AMZI”].

2. BASIS OF PREPARATION

(a) Statement of compliance

The Company is following the same accounting policies and methods of computation in these condensed consolidated interim financial statements as it did in the audited consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the 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 26, 2016.

(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

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
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[Expressed in United States dollars]

2. BASIS OF PREPARATION (Continued)

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

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.

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 \$9,281,862 deficit as at June 30, 2016 (December 31, 2015 - 9,132,211) and has a working capital deficiency of \$252,905 (December 2015 - \$117,567), including \$37,361 (December 2015 - \$119,445) in cash and cash equivalents. The Company is actively seeking to obtain new development contracts from the Mongolian Government.

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

[Expressed in United States dollars]

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 June 30, 2016 and December 31, 2015.

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:

- 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 June 30, 2016 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 January 30, 2015, the Company dissolved its wholly owned subsidiary Novametal Resources LLC, which resulted in a transfer of \$58,854 (2014 - \$Nil) from the foreign currency reserve to the deficit in the consolidated statement of changes in equity. On June 30, 2015, the Company liquidated its wholly owned subsidiary Natalya-1 S. à r. l.

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
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[Expressed in United States dollars]

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:

Company	Functional Currency	
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.

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.

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
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[Expressed in United States dollars]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

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 June 30, 2016. 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, 2015. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2016 could result in restatement of these unaudited condensed consolidated interim financial statements.

(e) Standards, amendments and interpretations (Continued)

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.

- IFRS 9 (Final version) *Financial Instruments*¹
- IFRS 15 *Revenue from Contracts with Customers*¹

¹ Effective for annual periods beginning on or after 1 January 2018

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.

Significant management judgements

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.

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
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[Expressed in United States dollars]

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

Contract revenue

The Company uses the percentage-of-completion method to determine the appropriate amount of contract revenue to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are disclosed as inventories, prepaid expenses or other assets, depending on their nature.

This method requires management to make estimates with regard to the work completed, and the costs to complete the remainder of the work in order to determine the amount of revenues and profits to be recognized at the end of every reporting period. Under this method, the profits recognized are dependent on a variety of estimates, including the progress of the engineering work, quantities of material, achievement of certain contractual milestones, costs to complete, changes made by the professionals hired by the project's owner, site conditions and other situations having an impact on costs. These estimates depend on management's judgment with respect to these factors at a specific date, and certain estimates are difficult to determine before the project is sufficiently advanced.

Given the complexity of the estimation process, even when applying appropriate business practices, the projected costs can vary from the estimates.

The revision of such estimates could reduce or increase the profit on a contract and also, under certain circumstances, result in the immediate recognition of estimated losses. Furthermore, in the normal course of business, changes to contracts often occur while they are in progress. Generally, the revenues relating to those contract changes are included in the total estimated revenues up to the anticipated costs when there is a verbal agreement with the client. Consequently, the profits related to these changes are generally recognized upon their written approval. In certain cases, however, the costs are incurred and recognized before a settlement is finalized.

This situation often leads to the recognition of losses before an agreement is reached with the client, since profits are recognized when the negotiated agreement is signed.

The mechanisms related to the percentage-of-completion method can cause fluctuations in the recognition of revenues and costs from one period to another with regard to the contracts underway. Consequently, while the Company tends to realize its profitability objective on its overall order backlog and the full project execution term, gross margin can vary from period to period based on specific mix of revenues and costs recorded on all projects for every given period.

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.

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

[Expressed in United States dollars]

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

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.

As at June 30, 2016, the Company recorded a road repair provision of \$325,364 (December 31, 2015 - \$320,633).

Investments in private companies

The Company provides for changes in valuation in its investments that don't 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.

Allowance for doubtful accounts

The Company provides for doubtful accounts based principally on historical collection rates and management's expectation of success rates for collection of overdue accounts as well as management's expectation of success rates for collection through legal proceedings. Management continuously monitors the collection of overdue accounts including the allowance for doubtful accounts. In determining the allowance for doubtful accounts, the Company considers a number of factors affecting the likelihood of collection.

The Company's provision for overdue accounts could materially change and may result in significant changes to accounts receivable balances as management continues to monitor the collection of outstanding accounts.

As at June 30, 2016 and December 31, 2015, the Company recorded an allowance for doubtful accounts of \$Nil. There were no recoveries of doubtful accounts during these periods.

KHOT INFRASTRUCTURE HOLDINGS, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL
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[Expressed in United States dollars]

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

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 (Note 10).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described above. Balances subject to estimation uncertainty are presented on the face of the statements. Refer to notes 6, 7, 9, and 10 for carrying values of significant assets, liabilities and equity items that are subject to estimation uncertainty. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	June 30, 2016	December 31, 2015
	\$	\$
Cash in banks	37,361	119,445

As at June 30, 2016, Canadian Dollars, CND\$5,557 (CND\$79,708 – December 31, 2015), and Mongolian Tugrik, MNT 2,518,461 (MNT 22,872,236 – December 31, 2015) was included in the cash of the Company. These amounts are translated into USD using the closing exchange rates on June 30, 2016 and December 31, 2015. Cash earns interest at floating rates based on the daily bank deposit rates.

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6. ACCOUNTS RECEIVABLE AND LONG TERM RECEIVABLE

Accounts receivable

	June 30, 2016	December 31, 2015
	\$	\$
Trade receivables (net of AFDA of \$152,200)	268,148	262,682
Other receivables	7,663	21,549
	275,811	284,231

Trade receivables are non-interest bearing and are generally on three (3) months' credit terms, which is approved on a case-by-case basis. Trade receivables that are neither past due nor impaired are with creditworthy debtors with good payment records with the Company. None of the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Long term receivable

	June 30, 2016	December 31, 2015
	\$	\$
Long term receivable	44,105	43,464

The long term receivable represents 5% of the total road construction contract, withheld since the beginning of contract by the Mongolian Government. Payment is anticipated to be received in 2018, upon expiration of the construction warranty, which is three years after the completion of the road construction contract. The long term receivable has been recorded using an effective interest rate method with a discount rate of 10.9% based on Mongolia government bond.

7. 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:

	June 30, 2016	December 31, 2015
	\$	\$
Investment in Mogul	10,909	10,909
Other investments	509	502
	11,418	11,411

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8. LOAN AND INTEREST PAYABLE

	June 30, 2016	December 31, 2015
	\$	\$
Unsecured loan and interest from HBOil JSC	18,900	19,861

As at December 31, 2015, the Company repaid \$450,000 of principal on the outstanding loan. During six months ended June 30, 2016 and the year ended December 31, 2015, a total of \$Nil interest payments were made.

9. ROAD REPAIR PROVISION

	June 30, 2016	December 31, 2015
	\$	\$
Balance, beginning of the year	320,633	42,821
Additions to the provision	-	327,362
Usage of the provision	-	(42,821)
Effect of changes in foreign exchange rates	4,731	(6,729)
Balance, end of the year	325,364	320,633

Road repair obligations relate to the remaining costs to complete the road constructions contract recognized in the current year, as a result of current years' inspection completed by Mongolian authority on the road construction project.

Management estimated that potential road repair costs under the Darkhan road construction contract was \$325,364 as at June 30, 2016 (December 31, 2015 - \$320,633). Management intends to secure additional funding to complete the road repair in the summer of 2016.

10. 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 June 30, 2016, there was 65,302,351 (December 31, 2015 - 64,738,484) common shares outstanding.

On January 22, 2016, the Company closed a financing consisted of 563,867 units at a price of CAD\$0.15 per unit for gross proceeds of \$39,284 (CAD\$84,580). As part of the units 475,433 non-transferable warrants (193,500 which were issued in December 2015) were issued with an exercise price of CAD\$0.20 for a period of 12 months following the date of issuance.

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10. SHARE CAPITAL (Continued)

The Company has determined that these warrants will give rise to a derivative which has been recorded as a liability on the Company's Consolidated Statement of Financial Position with changes in fair value from period to period recorded as a non-cash gain or loss in the Consolidated Statement of Loss and Comprehensive Loss. The reason for this accounting treatment is that the warrants are denominated in Canadian dollars, while the functional currency of the Company is the US dollar. As a result of this difference in currencies, the proceeds that may be received by the Company are not fixed and will vary based on foreign exchange rates. Although the Company will record a liability for these warrants, there are no circumstances in which the Company would be required to pay any cash upon exercise or expiry.

The fair value of the warrants was estimated at \$21,164 or \$0.0751 per warrant on the date issued based on the Black-Scholes option pricing model assuming an expected volatility of 289%, a risk-free interest rate of 0.43%, a dividend yield of 0%, and an expected term of one year.

Warrants

The following table reflects the continuity of warrants:

	Number of warrants	Weighted Average Exercise Price CND \$
Balance, beginning of the period	202,300	0.20
Unit warrants issued during the period	281,934	0.20
Finders' warrants issued during the period	-	-
Balance, end of the period	484,234	0.20

As at June 30, 2016, the following warrants were issued and outstanding:

Expiry Date	Exercise Price (CND)	Warrants Outstanding	Carrying Value USD
December 29, 2016	\$ 0.20	193,500 ⁽¹⁾	\$ -
December 29, 2016	\$ 0.20	8,800	\$ 650
January 22, 2017	\$ 0.20	281,934 ⁽¹⁾	\$ -
Total		484,234	\$ 650

(1) The warrants issued in association with the private placement have been recorded as financial liabilities as the exercise price is in a currency other than the functional currency of the Company.

Warrant liability

On December 29, 2015, the Company also issued a total of 193,500 warrants which allow the holder to acquire one additional Common Share of the Company at a price of CND\$0.20 per share. These warrants expire after on December 29, 2016. As the strike price of the warrants is in Canadian dollars, which is not the functional currency of the Company, the warrants were classified as liability instruments

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10. SHARE CAPITAL (Continued)

	Number of warrants	Value of warrants \$
Balance, beginning of the period	193,500	16,763
Additions	281,934	21,164
Valuation change	-	(37,104)
Balance, end of the period	475,434	823

For the six months ended June 30, 2016 the Company recorded a mark to market gain of \$37,104 (2015 – \$Nil) on the revaluation of warrants. As at June 30, 2016, the outstanding liability portion of the warrants, have a fair value of \$823 (December 31, 2015 – \$16,763).

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.

The following table provides detailed information about stock options outstanding as at June 30, 2016

Expiry Date	Exercise Price CND	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	\$ 0.25	2,975,000	0.44	2,975,000	-
December 3, 2016	\$ 0.20	120,000	0.44	120,000	-
December 31, 2017	\$ 0.10	150,000	1.48	150,000	-
January 8, 2019	\$ 0.25	1,950,000	2.53	1,950,000	-
December 3, 2020	\$ 0.20	775,000	4.43	775,000	-
Total		5,970,000	1.66	5,970,000	-

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10. SHARE CAPITAL (Continued)

The following table provides detailed information about stock options outstanding as at December 31, 2015.

Expiry Date	Exercise Price CND	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	\$ 0.25	2,975,000	0.93	2,975,000	-
December 3, 2016	\$ 0.20	120,000	0.93	60,000	60,000
December 31, 2017	\$ 0.10	150,000	1.98	90,000	60,000
January 8, 2019	\$ 0.25	2,200,000	3.28	2,200,000	-
December 3, 2020	\$ 0.20	825,000	4.93	825,000	-
Total		6,270,000	2.22	6,150,000	120,000

Stock option activity is as follows:

	Number	Weighted- Average exercise price CND \$
Outstanding December 31, 2014	5,975,000	0.25
Granted	1,245,000	0.20
Forfeited	(950,000)	0.23
Outstanding, December 31, 2015	6,270,000	0.24
Forfeited	(300,000)	0.24
Outstanding, June 30, 2016	5,970,000	0.24

2016 activity

During the six months ended June 30, 2016, 300,000 stock options with a weighted average exercise price of \$0.24 expired unexercised.

2015 activity

On April 1, 2015, the Company granted, under its Stock Option Plan, incentive stock options to consultants to purchase up to an aggregate of 300,000 common shares in the capital of the Company exercisable for a period ending on December 21, 2017, at an exercise price of CND \$0.10 per share. 60,000 options vested on the date of grant with the remaining options vest at a rate of 20% every three months with the last tranche vesting on April 1, 2016.

On December 3 2015, the Company granted, under its Stock Option Plan, fully vested incentive stock options to certain directors, senior officers, and consultants to purchase up to an aggregate of 825,000 common shares in the capital of the Company exercisable for a period of five years ending on December 3, 2020, at an exercise price of CND \$0.20 per share.

On December 3, 2015, the Company granted, under its Stock Option Plan, incentive stock options to consultants to purchase up to an aggregate of 120,000 common shares in the capital of the Company exercisable for a period of one

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10. SHARE CAPITAL (Continued)

year ending on December 3, 2016, at an exercise price of CND \$0.20 per share. 60,000 options vested on the date of grant and the balance vest on March 3, 2016.

During the year ended December 31, 2015, 950,000 stock options were forfeited. 800,000 stock options previously granted to directors of the Company, were exercisable at \$CND 0.25 and expiring on December 6, 2016. The remaining 150,000 stock options, granted to investor relations consultants, were exercisable at CND \$0.10 and expiring on January 8, 2019.

The weighted average fair value of each option granted during the year ended December 31, 2015, was estimated using the Black Scholes option pricing model with the following weighted average assumptions:

	April 1, 2015	December 3, 2015	December 3, 2015
Average share price at date of grant CND	\$0.01	\$0.18	\$0.18
Expected dividend yield	0.00%	0.00%	0.00%
Expected share price volatility	221%	252%	252%
Risk free interest rate	0.68%	0.48%	0.48%
Expected life of options	2.70 years	5 years	1 year
Average exercise price at date of grant CND	\$0.10	\$0.20	\$0.20
Black-Scholes Value USD	\$1,162	\$110,860	\$8,648

The underlying expected volatility was determined by reference to historical data of KOT's shares listed on the CSE based on annual price volatility since the change in business to infrastructure development in the road construction industry for the expected term of the options. No special features inherent to the options granted were incorporated into measurement of fair value.

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:

	June 30, 2016	December 31, 2015
	\$	\$
Balance, beginning of period	1,333,619	1,212,949
Stock-based compensation	-	120,670
Balance, end of the period	1,333,619	1,333,619

11. CONSTRUCTION REVENUE

The Company's activities are predominantly in one industry segment, namely road construction service, and its properties are all situated in Mongolia. Revenue is mainly generated from customers under the control of the Mongolian government and domiciled in Mongolia. During the period ended June 30, 2016 and the year ended December 31, 2015, the Company did not have any revenue from construction contracts.

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12. 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:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<u>Short-term Key management benefits</u>	\$	\$	\$	\$
Compensation including bonuses	30,666	31,078	62,274	56,864
<u>Long-term Key management benefits</u>				
Share based payments	-	-	-	-
Total remuneration	30,666	31,078	62,274	56,864

1) Management fees include \$30,000 (\$28,876 – 2015) paid to Don Padgett, the Company’s Chief Executive Officer. The Company has a consulting contract with Don Padgett whereby the company pays \$4,000 a month for management fees as well as a salary of CND \$1,000 a month for performing services as the CEO. On September 30, 2015, Mr. Padgett’s monthly salary was terminated and his consulting fees were increased to \$5,000 per month. As at June 30, 2016, \$10,000 (\$ Nil – 2015) payables were due to Don Padgett.

2) Management fees include \$14,156 (\$22,115 – 2015) paid to Sabino Di Paola, the Company’s current Chief Financial Officer and Corporate Secretary. The Company has a consulting contract with Sabino Di Paola whereby the company pays CND\$110/hour for services rendered as well as CND \$1,000 a month for performing services as the CFO. On September 30, 2015, Mr. Di Paola’s monthly salary was terminated. As at June 30, 2016, accounts payable of \$9,653 (\$Nil – 2015) were due to Sabino Di Paola.

3) Consulting and advisory fees include \$18,118 (\$5,872 – 2015) paid to Erin Chutter, one of the directors of the Company. As at June 30, 2016, \$9,290 (\$3,202 – 2015) payable were due to Erin Chutter.

Transactions with related companies and directors

Borrowings from HBOil JSC

	June 30, 2016	December 31, 2015
	\$	\$
Balance, beginning of the period	19,861	455,515
Additions	-	-
Repayment	-	(448,104)
Interest expense	-	7,880
Translation difference	(961)	4,570
Balance, end of the period	18,900	19,861

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12. RELATED PARTY TRANSACTIONS (Continued)

HBOIL JSC has a significant shareholder in common with Khot Infrastructure Holdings Ltd.

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

13. CONTINGENCIES

During the year the Company's subsidiary AMZ began legal proceedings in the amount of 520,000,000,000 MNT (approximately US\$320,000) against the Mongolian asphalt supplier due to poor quality asphalt provided in the construction of the Darkhan Road project. As a result of the poor quality of asphalt supplied the Mongolian Ministry of Road and Transportation requested that AMZ repave a section of the road. AMZ has obtained an analysis on samples of the asphalt and has submitted them to the court to show that it was not the same quality as specified by the asphalt supplier. The Company anticipates an initial ruling by the court by the end of the year. Management believes that it will be successful in court, however, no provisions have been recorded for the settlement as at the date of these financial statements.

14. SEGMENT REPORTING

As at June 30, 2016, the Company had one reportable operating segment of infrastructure development. All of the Company's non-current assets are located in Mongolia and Luxembourg.

The Company has the following non-current assets located in Mongolia for its infrastructure development activities:

	June 30, 2016	December 31, 2015
	\$	\$
Property, plant and equipment	11,909	14,171
Investments	509	502
Long term receivable	44,105	43,464
	56,523	58,137

The Company has the following noncurrent assets located in Canada:

	June 30, 2016	December 31, 2015
	\$	\$
Investment in Mogul Venture	10,909	10,909

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15. 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 June 30, 2016, totals \$41,401 (December 2015 - \$163,137). 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 six months ended June 30, 2016 and years ended December 31, 2015. The Company is not subject to externally imposed capital requirements or covenants.

16. 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.

	June 30, 2016	December 31, 2015
	\$	\$
Available for sale investments	11,418	11,411
Current loans and receivables ²	313,172	403,676
Long term loans and receivables	44,105	43,464
Loan and interest payable	(18,900)	(19,861)
Financial liabilities	(823)	(16,763)
Other financial liabilities ¹	(229,230)	(177,310)
	(229,230)	(177,310)

¹ accounts payable and accrued liabilities

² cash and current accounts receivable

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16. 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 June 30, 2016 and December 31, 2015, 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 June 30, 2016, 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).

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16. FINANCIAL RISK MANAGEMENT (Continued)

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

The Company's trade receivables are only with the Mongolian government and are recognized, creditworthy third parties. It is the Company's policy that governments who wishes to trade on credit terms are subject to credit verification procedures.

As at June 30, 2016	Neither past due nor impaired		Past due or	Total
	High grade	Standard grade	individually	Total
	\$	\$	impaired (\$)	\$
Cash and receivables:				
Cash and cash equivalents	37,361	–	–	37,361
Trade receivables	268,148	–	–	268,148
Others receivables	7,663	–	152,500	7,663
Long-term receivables	44,105	–	–	44,105
	357,277	–	152,500	357,277

As at December 31, 2015	Neither past due nor impaired		Past due or	Total
	High grade	Standard grade	individually	Total
	\$	\$	impaired (\$)	\$
Cash and receivables:				
Cash and cash equivalents	119,445	–	–	119,445
Trade receivables	262,682	–	–	262,682
Others receivables	21,549	–	152,500	21,549
Long-term receivables	43,464	–	–	43,464
	447,140	–	152,500	447,140

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 June 30, 2016, the Company had a working capital deficit of \$252,905 [December 31, 2015 - \$117,567]. 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

The Company conducts operations in Mongolia where many of its transactions are denominated in the Mongolian Tugrik. 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 Mongolian Tugrik. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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16. FINANCIAL RISK MANAGEMENT (Continued)

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

The following is the list of financial assets and liabilities held in Canadian dollars (presented in USD):

	June 30, 2016	December 31, 2015
	\$	\$
Cash	5,957	57,589
Accounts receivable	-	7,343
Accounts payable and accrued liabilities	(135,309)	(92,954)
Warranty liability	(823)	(16,763)
	(130,175)	(44,785)

The following is the list of financial assets and liabilities held in Mongolian Tugrik (presented in USD):

	June 30, 2016	December 31, 2015
	\$	\$
Cash	1,282	11,471
Accounts receivable (including long term receivables)	319,916	320,353
Accounts payable and provisions	(367,861)	(378,843)
	(46,663)	(47,019)

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all variables held constant, of the Company's loss before tax due to changes in the carrying value of monetary assets and liabilities.

	June 30, 2016	December 31, 2015
	\$	\$
	Increase/ (Decrease)	Increase/ (Decrease)
Increase/(decrease) in foreign currency exchange rate (USD)		
+5%	8,842	4,590
-5%	(8,842)	(4,590)
	(8,842)	(4,590)

17. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period.