Consolidated Financial Statements
[Expressed in United States dollars]

Khot Infrastructure Holdings, Ltd.

For the years ended December 31, 2016 and 2015

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Khot Infrastructure Holdings, Ltd.

We have audited the accompanying consolidated financial statements of Khot Infrastructure Holdings, Ltd., which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Khot Infrastructure Holdings, Ltd. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Khot Infrastructure Holdings, Ltd.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements of Khot Infrastructure Holdings, Ltd. for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on April 27, 2016.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
July 28, 2017

Khot Infrastructure Holdings, Ltd.

Consolidated Statements of Financial Position

(expressed in United States dollars)

	Notes		As at December 31, 2016		As at December 31, 2015
Assets					
Current assets:					
Cash	5	$	12,780	$	119,445
Accounts receivable	6		-		284,231
Prepayment			7,784		13,324
Total current assets			20,564		417,000
Non-current assets					
Property, plant and equipment	7		-		14,171
Long term receivable	6		-		43,464
Investments	8		11,351		11,411
Total non-current assets			11,351		69,046
Total assets		$	31,915	$	486,046
Liabilities and shareholders' equity					
Current liabilities:					
Accounts payable and accrued liabilities	9	$	428,416	$	177,310
Loan and interest payable			16,397		19,861
Warrants liability	11		-		16,763
Road repair provisions	10		293,474		320,633
Total current liabilities			738,287		534,567
Shareholders' equity (deficiency)					
Share capital	11		8,049,254		8,005,895
Other reserves			1,230,289		1,289,453
Deficit			(9,630,283)		(9,132,211)
			(350,740)		163,137
Non Controlling Interests			(355,632)		(211,658)
Total shareholders' deficiency			(706,372)		(48,521)
Total liabilities and shareholders' equity (deficiency)		$	31,915	$	486,046
Events after the reporting date	19				

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on July 28, 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		**Year ended December 31, 2016**		Year ended December 31, 2015
Expenses					
Management fees		**$**	**123,366**	$	101,518.00
Promotion & investor conference			**31,578**		61,611
Regulatory, exchange, AGM, press release and transfer agent fees			**14,149**		16,156
Professional fees			**31,977**		53,861
Finance costs			**1,666**		13,723
Stock bases compensation	11		**-**		110,860
Loss on sale of investments	8		**-**		114,092
Foreign exchange (gain) loss			**(11,929)**		7,047
Other expenses	12		**111,174**		213,686
			301,981		692,554
Other income					
Revaluation of warrants liability			**33,852**		-
Interest and other income			**106,687**		909
Impairment of cash			**(19,807)**		-
Loss from continuing operations			**(181,249)**		**(691,645)**
Discontinued operations	15		**(441,075)**		(477,424)
Net Loss			**(622,324)**		**(1,169,069)**
Other comprehensive loss					
Exchange difference on translating foreign operations			**(78,886)**		10,465
Total comprehensive loss for the year		**$**	**(543,438)**	$	(1,179,534)
Net loss attributed to:					
Equity holders of the parent		**$**	**(498,072)**	$	(1,047,469)
Non-controlling interests			**(124,252)**		(121,600)
		$	**(622,324)**	$	(1,169,069)
Total comprehensive loss attributed to:					
Equity holders of the parent		**$**	**(438,908)**	$	(1,055,318)
Non-controlling interests			**(143,974)**		(124,216)
		$	**(543,438)**	$	(1,179,534)
Loss per common share:					
Basic and diluted		**$**	**(0.01)**	$	(0.02)
Weighted average number of common shares outstanding:					
Basic and diluted			**65,112,336**		64,354,664

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

Khot Infrastructure Holdings, Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(expressed in United States dollars)

	Number of common shares	Share Capital	Reserves: Foreign currency translation reserve	Reserves: Warrants	Reserves: Share based payment reserve	Deficit	Attributable to Equity Holders of the Parent	Non - Controlling Interest	Total
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 Resouces Inc.	-	-	58,854	-	-	(58,854)	-	-	-
Units issued (Note 11)	387,000	41,912	-	-	-	-	41,912	-	41,912
Share issue costs (Note 11)	-	(19,267)	-	650	-	-	(18,617)	-	(18,617)
Issuance of stock options (Note 11)	-	-	-	-	120,670	-	120,670	-	120,670
Total comprehensive loss for the year	-	-	(7,849)	-	-	(1,047,469)	(1,055,318)	(124,216)	(1,179,534)
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 (Note 11)	563,867	43,359		-	-	-	43,359	-	43,359
Total comprehensive loss for the year	-	-	(59,164)	-	-	(498,072)	(557,236)	(143,974)	(701,210)
Balance at December 31, 2016	**65,302,351**	**$ 8,049,254**	**$ (103,980)**	**$ 650**	**$ 1,333,619**	**$ (9,630,283)**	**$ (350,740)**	**$ (355,632)**	**$ (706,372)**

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

Khot Infrastructure Holdings, Ltd.
Consolidated Statements of Cash Flows

(expressed in United States dollars)		**Year ended December 31, 2016**		Year ended December 31, 2015
Cash flow from operating activities				
Loss for the year	**$**	**(181,249)**	$	(691,645)
Adjustments to reconcile loss to net cash used in operating activities:				
Stock option expense		-		110,860
Non-cash promotion expenses		-		9,810
Change in provision		-		277,812
Loss on sale of investment		-		114,092
Other income		**(106,687)**		-
Revaluation of warrants liability		**(33,852)**		-
Unrealized foreign exchange		-		(1,195)
Depreciation		-		
Change in non-cash working capital balances:				
Accounts receivable		-		-
Accounts payable and accrued liabilities		**193,138**		5,370
Prepayments		**5,540**		4,359
Cash used in operating activities - continued opeartions		**(123,110)**		(170,537)
Cash used in operating activities - discontinued operations		**(126,022)**		(370,778)
Cash flows from investing activities				
Purchase of equipment		-		(863)
Total cash from investing activities		-		(863)
Cash flows from financing activities				
Proceeds from sale of units		**60,447**		41,912
Unit issue costs		-		(1,906)
Repayment of loans		-		(435,654)
Total cash from financing activities		**60,447**		(395,648)
Effect of foreign exchange on cash		**82,020**		(11,766)
Total decrease in cash during the year		**(106,665)**		**(949,592)**
Cash - Beginning of the year		**119,445**		1,069,037
Cash - End of the year	**$**	**12,780**	**$**	**119,445**
Cash interest payments made during the year	**$**	-	$	-

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

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 was engaged in the construction and maintenance of roads and bridges in Mongolia. Effective Ocotber 1, 2016, management decided it would discontinue its Mongolian operations and pursue other business ventures (note 15).

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”) 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”]. During the year ended December 31, 2016, the Company abandoned its activities in Mongolia (note 15).

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 July 28, 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.

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.

2. BASIS OF PREPARATION (Continued)

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

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 has had a history of losses and has accumulated a $9,630,283 deficit as at December 31, 2016 and has a working capital deficiency of $717,723, including $12,780 in cash and cash equivalents.

The Company will require additional financing, through various means including but not limited to equity financing, to pursue business opportunities 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.

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 December 31, 2016 and 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

(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (continued)

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 December 31, 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

During the year ended December 31, 2016, the Company discontinued its activities in Mongolia (note 15).

On January 30, 2015, the Company dissolved its wholly owned subsidiary Novametal Resources LLC, which resulted in a transfer of $Nil (2014 - $58,854) 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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combinations (Continued)

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 during the course of the year has foreign operations in Luxembourg and had foreign operations in Mongolia until October 1, 2016.

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

Company	Functional Currancy	
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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments

i) Financial Assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent Measurement

The subsequent measurements of financial assets are classified into four categories:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Held-to-maturity investments; and
- Available-for-sale financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash, accounts receivable, and long-term receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss ("FVTPL")

The Company has no financial assets in this category.

Held-to-maturity investments

The Company has no financial assets in this category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company has an investment in Mogul Ventures Inc, which falls into this category of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

All available-for-sale financial assets are measured at fair value. Unrealized gains and losses are recognized in other comprehensive income / (loss), except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income/(loss) is reclassified to profit or loss and presented as a reclassification adjustment within other comprehensive income/(loss). Interest calculated using the effective interest method and dividends are recognized in profit or loss within interest income.

Reversals of impairment losses are recognized in other comprehensive income/(loss).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of marketable securities designated as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write-down is then based on recent historical counterparty default rates for each identified group. Impairment of receivables is presented in profit or loss.

ii) Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

The Company's financial liabilities include accounts payable, loan and interest payable and accrued liabilities and are classified as other financial liabilities subsequently measured at amortized cost. Financial liabilities classified as FVTPL include warrants with exercise prices denominated in a currency other than the Company's functional currency. Fair value changes on financial liabilities classified as FVTPL are recognized in the Statement of Comprehensive Loss. Transaction costs associated with FVTPL liabilities are expensed as incurred. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

(e) Property, plant and equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated amortization and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is recognized based on the cost of an item of equipment, less its estimated residual value, over its estimated useful life at the following rates:

Detail	Percentage	Method
Furniture and fixtures	10 years	Straight line
Computers	3 years	Straight line

An asset's residual value, useful life and amortization method are reviewed, and adjusted if appropriate, on an annual basis.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

(f) Impairment of non-financial assets

The Company assesses non-financial assets including property, plant & equipment for impairment when facts and circumstances suggest that the carrying amount of the asset may not exceed its recoverable amount, being the higher of the value in use and the fair value less costs of disposal. In assessing value in use, the estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment recognized immediately in comprehensive income (loss).

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, subject to the amount not exceeding the carrying amount that would have been determined had impairment not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in comprehensive income (loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts with high credit quality financial institutions, and short-term, highly liquid investments with original maturity of three months or less when acquired.

(h) Assets held for sale

Non-current assets, or assets of a disposal group, are classified as held for sale if their carrying amount will be recovered principally through a sale transactions rather than through continuing use. This condition is met when assets are available for immediate sale in their present condition, subject only to terms that are usual and customary for sale of such assets, and their sale is highly probable. The Company must be committed to the sale, which should be expected to qualify as a complete sale within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their carrying amounts and their fair value less costs to sell.

(i) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed — for example, under an insurance contract — the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as part of finance costs in profit or loss.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

In the normal conduct of operations, the Company can become party to potential litigations, the outcome of which may not easily determinable. It is in management’s opinion that there are no matters, which will materially affect the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Provisions, contingent liabilities and contingent assets (continued)

Any contingent liabilities will be recorded by management in the period in which management has been able to reasonably quantify the asset or liability and the amount of cash inflow or outflow resulting from the contingent asset or liabilities can be reasonably assured.

(j) Share capital and reserves

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Share capital represents the nominal value of the shares issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefit.

Share based payment reserve is used to recognize the value of equity settled, share based payment transactions provided to employees including key management personnel, as part of their remuneration.

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

Accumulated deficit includes all current and prior period net income or losses.

(k) Share-based payment transactions

The Company operates an equity-settled share-based remuneration plan (stock option plan) for directors, officers, employees and certain consultants. The Company's plan does not feature any options for a cash settlement. Occasionally, the Company may issue warrants to brokers.

All goods and services received in exchange for the grant of any share-based payments are measured at the fair values of the goods and services received. If the fair value of the goods and services are not determinable, the share-based payments is valued based upon the share price on service date of which the goods or services are received. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting. Share-based payment expense incorporates an expected forfeiture rate.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Share-based payment transactions (continued)

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

All share-based payments under the plan are ultimately recognized as an expense in profit or loss with a corresponding credit to share-based payment reserve in equity over the period in which performance and/or service conditions are fulfilled. At the same time, upon exercise of a stock option, the proceeds received net of any directly attributable transaction costs are recorded as capital stock. The accumulated charges related to the share options recorded in share-based payment reserve are then transferred to share capital.

Options issued to key management and employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the expected term of the option.

Options issued to service providers

Options issued to service providers, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

(l) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred and current tax not recognized in other comprehensive income or directly in equity.

Current income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income taxes (Continued)

<u>Deferred income taxes</u>

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, that affects neither the accounting profit nor taxable profit (loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the parent, and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred assets are recognized for all temporary differences, the carry forward of unused tax credits, any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, and at the time of the transaction, that affects neither the accounting profit nor taxable profit (loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, deferred tax assets are recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income taxes (Continued)

Sales tax

Revenues, expenses, assets and liabilities are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(m) Loss per common share

Basic loss or earnings per common share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares issued and outstanding for the relevant period.

Diluted loss or earnings per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

(n) Segmented reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment results that are reported to Company's chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

During the years ended December 31, 2015, the Company operated in one reportable operating segment, which was infrastructure development in Mongolia.

(o) 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.

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

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.

<u>Significant management judgements</u>

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.

<u>Contingencies</u>

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.

<u>Functional currency</u>

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.

<u>Road repair provision</u>

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.

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

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

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

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 11).

(Expressed in United States dollars)

5. Cash

Cash consists of the following:

	December 31, 2016 $	December 31, 2015 $
Cash in banks	**12.780**	119,445

As at December 31, 2016, Canadian Dollars CND $822 (CND$79,708- December 31, 2015) and Mongolian Tugrik, MNT 264,136 (MNT 22,872,236 – December 31, 2015) was included in cash of the Company. These amounts are translated into USD using the closing exchange rates on December 31, 2016 and 2015. Cash earns interest at floating rates based on the daily bank deposit rates.

6. ACCOUNTS RECEIVABLE AND LONG TERM RECEIVABLE

Accounts receivable

	December 31, 2016 $	December 31, 2015 $
Trade receivables	-	262,682
Other receivables (net of AFDA)	-	21,549
	-	284,231

Long term receivable

	December 31, 2016 $	December 31, 2015 $
Long term receivable	-	43,464

During the year ended December 31, 2016, accounts receivables of $269,995 were determined to be uncollectible and were impaired to $Nil. This impairment has been included in discontinued operations (Note 15).

7. PROPERTY, PLANT AND EQUIPMENT

During the year ended December 31, 2016, the Company assessed that the carrying value of property, plant and equipment was not recoverable and recorded an impairment of $8,336. This impairment has been included in discontinued operations (Note 15).

8. 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.

(Expressed in United States dollars)

8. INVESTMENTS (Continued)

Investments:

	December 31, 2016 $	December 31, 2015 $
Investment in Mogul	**10,909**	10,909
Other investments	**442**	502
	11,351	11,411

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2016 $	December 31, 2015 $
Trade payables	**236,186**	73,413
Accrued liabilities	**69,394**	103,897
Due to related parties	**122,836**	-
	428,416	177,310

10. ROAD REPAIR PROVISION

	December 31, 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	**(27,159)**	(6,729)
Balance, end of the year	**293,474**	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 prior years' inspection completed by Mongolian authority on the road construction project.

11. 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.

11. SHARE CAPITAL (Continued)

Issued share capital

At December 31, 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 $60,447 (CAD$84,580). As part of the units 475,434 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.

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.

On December 29, 2015, 387,000 units were issued at a price of CND $0.15 for proceeds to the Company of $41,959 (CND $58,050). Each unit includes one common share and one half warrant, each whole warrant entitles the holder to purchase one common share of the Company, for a period until the close of business on December 29, 2016 at CND$0.20. Share issue costs of $2,696 (CND $3,696) in cash and finders' warrants were incurred as part of the private placement.

As a part of the private placement, the Company also issued 8,800 broker 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.

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 fair value of the warrants was estimated at $16,763 or $0.0866 per warrant on the date issued based on the BlackScholes option pricing model assuming an expected volatility of 265%, a risk-free interest rate of 0.48%, a dividend yield of 0%, and an expected term of one year.

The Company paid finder's fees of $1,906 and issued 8,800 broker warrants with the same terms as the unit warrants. The finders' fees warrants have been valued based on the Black-Scholes option pricing model of $0.0866 USD per warrant for an aggregate value of $762.

11. SHARE CAPITAL (Continued)

Warrants

The following table reflects the continuity of warrants:

	Number of warrants	Weighted Average Exercise Price CND $
Balance, December 31, 2014	-	-
Unit warrants issued	193,500	0.20
Finders' warrants	8,800	0.20
Balance, December 31, 2015	202,300	0.20
Unit warrants issued	281,934	0.20
Expired	(202,300)	-
Balance, December 31, 2016	281,934	0.20

As at December 31, 2016, the following warrants were issued and outstanding:

Expiry Date	Exercise Price (CND)	Warrants Outstanding	Carrying Value USD
January 22, 2017	$ 0.20	281,934(1)	$ -

(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.

Subsequent to the year end 281,934 warrants with an exercise price of $0.20 expired unexercised.

Warrant liability

On December 29, 2015, the Company, as part of a private placement, 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 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

On January 22, 2016, the Company, as part of a private placement, issued 281,934 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 on January 22, 2017. 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.

	Number of warrants	Value of warrants $
Balance, December 31, 2014	-	-
Additions	193,500	16,763
Balance, December 31, 2015	193,500	16,763
Additions	281,934	21,164
Expired warrants	(193,500)	-
Valuation change	-	(37,927)
Balance, December 31, 2016	281,934	-

(Expressed in United States dollars)

11. SHARE CAPITAL (Continued)

For the year ended December 31, 2016 the Company recorded a mark to market gain of $33,852 (2015 – $Nil) on the revaluation of warrants. As at December 31, 2016, the outstanding liability portion of the warrants, have a fair value of $ Nil (December 31, 2015 – $16,763).

The fair values of these warrants were estimated using the Black-Scholes Option Pricing Model using the following assumptions.

- The stock price was based upon the publicly traded price at the time of issuance;
- The risk-free interest rate assumption is based on the daily treasury yield curve rate, per US Department of Treasury for a period consistent with the expected term of the option in effect at the time of the grant;
- The Company does not pay dividends on common stock and does not anticipate paying dividends on its common stock in the foreseeable future. Therefore, the expected dividend rate was 0%;
- The expected life of the warrants was estimated to be the difference between the translation date and the remaining contractual term; and
- The expected volatility was based off of the historical trading prices of the Company's common stock price over a period equivalent to the expected life of the warrants.

The fair values of these warrants were estimated using the Black-Scholes Option Pricing Model using the following inputs (weighted averages):

	December 31, 2016	**December 31, 2015**
Expected volatility	56.00%	264.61%
Expected life	0.06 years	1 year
Dividends	0.00%	0.00%
Risk-free interest rate	0.46%	0.48%

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.

(Expressed in United States dollars)

11. SHARE CAPITAL (Continued)

Stock options (continued)

The following table provides detailed information about stock options outstanding as at December 31, 2016

Expiry Date	Exercise Price CND		Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 31, 2017	$	0.10	150,000	1.00	90,000	60,000
January 8, 2019	$	0.25	1,950,000	2.02	1,950,000	-
December 3, 2020	$	0.20	775,000	3.93	775,000	-
Total			**2,875,000**	**2.48**	**2,815,000**	**60,000**

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**
Expired	(3,095,00)	0.25
Forfeited	(300,000)	0.24
Outstanding, December 31, 2016	**2,875,000**	**0.24**

2016

During the year ended December 31, 2016, 300,000 stock options with a weighted average exercise price of $0.24 were forfeited.

During the year ended December 31, 2016, 3,095,000 stock options with a weighted average exercise price of $0.25 expired unexercised.

2015

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.

(Expressed in United States dollars)

11. SHARE CAPITAL (Continued)

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 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:

	December 31, 2016 $	December 31, 2015 $
Balance, beginning of the year	**1,333,619**	1,212,949
Stock-based compensation	**-**	120,670
Balance, end of the year	**1,333,619**	1,333,619

(Expressed in United States dollars)

12. OTHER EXPENSES

	December 31, 2016	December 31, 2015
	$	$
Phone, utilities, supplies and other	**1,514**	3,085
Website, internet and printing	**819**	1,358
Contractor fees, salary and source deductions	**64,904**	94,866
Travel	**21,876**	54,526
Other expenses	**15,810**	44,415
Insurance	**6,251**	15,436
	111,174	213,686

13. INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate for the full financial year applied to the pre-tax loss for the year. The Company’s effective tax rate for the year ended December 31, 2016 was 10% (December 31, 2015 – 10%) as the Company’s operations were located in Mongolia.

The reconciliation of the Company’s statutory income tax rates to the effective tax rates is as follows:

	December 31, 2016	December 31, 2015
Loss for the year before income taxes	**(622,324)**	(1,169,069)
Statutory tax rate	**10%**	10%
Expected income tax recovery	**(62,000)**	(116,907)
Non-deductible permanent differences	**5,000**	9,851
Difference in foreign tax rates	**14,000**	55,432
Deferred tax assets not recognized	**50,000**	56,112
Other	**(7,000)**	(4,488)
Income tax expense	**-**	-

As a Company continued under the BVI International Business Companies Act (Cap. 291), the Company is exempt from taxes on profits, income or dividends. Each company incorporated in BVIs is required to pay an annual government fee, which is determined by reference to the amount of the company’s authorized share capital.

(Expressed in United States dollars)

14. 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:

	Year Ended December 31,	
	2016	2015
Short-term Key management benefits	$	$
Compensation including salary	**123,366**	125,487
Long-term Key management benefits		
Share based payments	**-**	53,760
Total remuneration	**123,366**	179,247

1) Management fees include $60,000 ($58,178 – 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 December 31, 2016, $54,559 ($ Nil – 2015) payables were due to Don Padgett.

2) Management fees include $27,185 ($43,340 – 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 December 31, 2016, accounts payable of $12,788 ($Nil – 2015) were due to Sabino Di Paola.

3) Consulting and advisory fees include $36,181 ($23,969 – 2015) paid to Erin Chutter, one of the directors of the Company. As at December 31, 2016, $26,813 ($Nil – 2015) payable were due to Erin Chutter.

4) As at December 31, 2016, $28,675 ($Nil – 2015) was owing to James Passin, one of the directors of the Company.

(Expressed in United States dollars)

14. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related companies and directors

Borrowings from HBOil JSC

	December 31, 2016	December 31, 2015
	$	$
Balance, beginning of the year	**19,861**	455,515
Additions	**-**	-
Repayment	**-**	(448,104)
Interest expense	**-**	7,880
Translation difference	**(3,466)**	4,570
Balance, end of the year	**16,395**	19,861

During the year ended December 31, 2016, HBOiL JSC had a loan outstanding with AMZ LLC. HBOIL JSC has a significant shareholder in common with Khot Infrastructure Holdings Ltd.

15. DISCONTINUED OPERATIONS

As at December 31, 2016, the Company determined that its Mongolian operations would be disposed of in order to pursue other opportunities.

The net loss from discontinued operations for the years ended December 31, 2016 and 2015 is as follows:

	December 31, 2016	December 31, 2015
	$	$
Cost of sales	**-**	327,452
Rental income	**-**	(8,531)
Interest income	**(123)**	(4,846)
Depreciation	**-**	5,949
Foreign exchange (gain) loss	**(42,687)**	15,884
Impairment of accounts receivable	**269,995**	-
Impairment of equipment	**8,336**	-
Other expenses	**115,562**	40,613
Administrative expenses	**89,991**	100,903
	441,075	477,424

(Expressed in United States dollars)

16. SEGMENT REPORTING

As at December 31, 2016, the Company had one reportable operating segment of infrastructure development.

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

	December 31, 2016	December 31, 2015
	$	$
Property, plant and equipment	**-**	14,171
Investments	**442**	502
Long term receivable	**-**	43,464
	442	58,137

The Company has the following noncurrent assets located in Canada:

	December 31, 2016	December 31, 2015
Investment in Mogul Venture	**$ 10,909**	$ 10,909

17. 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 December 31, 2016, totals ($369,241) (December 2015 – surplus of $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 years ended December 31, 2016 and December 31, 2015. The Company is not subject to externally imposed capital requirements or covenants.

(Expressed in United States dollars)

18. 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.

	December 31, 2016	December 31, 2015
	$	$
Available for sale investments	**11,351**	11,411
Current loans and receivables [2]	**12,780**	403,676
Long term loans and receivables	**-**	43,464
Loan and interest payable	**(16,397)**	(19,861)
Financial liabilities	**-**	(16,763)
Other financial liabilities [1]	**(428,416)**	(177,310)

[1] accounts payable and accrued liabilities
[2] cash and current accounts receivable

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 December 31, 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 December 31, 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.

(Expressed in United States dollars)

18. FINANCIAL RISK MANAGEMENT (Continued)

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.

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 December 31, 2016	**Neither past due nor impaired**		**Past due or**	
	High grade $	**Standard grade $**	**individually impaired ($)**	**Total $**
Cash and receivables:				
Cash and cash equivalents	12,780	–	–	12,780

As at December 31, 2015	**Neither past due nor impaired**		**Past due or**	
	High grade $	**Standard grade $**	**individually impaired ($)**	**Total $**
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.

18. FINANCIAL RISK MANAGEMENT (Continued)

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 December 31, 2016, the Company had a working capital deficit of $717,723 [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

During the year the Company conducted 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 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.

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

	December 31, 2016	December 31, 2015
	$	$
Cash	**822**	57,589
Accounts receivable	**-**	7,343
Accounts payable and accrued liabilities	**(136,473)**	(92,954)
Warrants liability	**-**	(16,763)
	(137,295)	(44,785)

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

	December 31, 2016	December 31, 2015
	$	$
Cash	**117**	11,471
Accounts receivable (including long term receivables)	**-**	320,353
Accounts payable and provisions	**(353,214)**	(378,843)
	(353,097)	(47,019)

(Expressed in United States dollars)

18. FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk (continued)

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.

	December 31, 2016 **$**	December 31, 2015 $
	Increase/ (Decrease)	Increase/ (Decrease)
Increase/(decrease) in foreign currency exchange rate (USD)		
+5%	**11,400**	4,590
-5%	**(11,400)**	(4,590)

19. EVENTS AFTER THE REPORTING PERIOD

On January 22, 2017, 281,934 warrants with an exercise price of $0.20 expired unexercised.

On February 28, 2017, Sabino Di Paola, resigned as CFO of the Company.