

Consolidated Financial Statements  
[Expressed in United States dollars]

**Khot Infrastructure Holdings, Ltd.**

For the years ended December 31, 2017 and 2016



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 statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 audits 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 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.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
April 11, 2017

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

(expressed in United States dollars)

	Notes	As at December 31, 2017	As at December 31, 2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	5	\$ 223,086	\$ 12,780
Prepayments		3,350	7,784
<b>Total current assets</b>		<b>226,436</b>	<b>20,564</b>
Non-current assets			
Investments	7	-	11,351
<b>Total non-current assets</b>		<b>-</b>	<b>11,351</b>
<b>Total assets</b>		<b>\$ 226,436</b>	<b>\$ 31,915</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	8	\$ 262,508	\$ 428,416
Short term debt	12	429,394	16,397
Road repair provisions	9	274,791	293,474
<b>Total current liabilities</b>		<b>966,693</b>	<b>738,287</b>
Non-current liabilities			
Long term debt	6	142,577	-
<b>Total non-current liabilities</b>		<b>142,577</b>	<b>-</b>
<b>Total liabilities</b>		<b>1,109,270</b>	<b>738,287</b>
<b>Shareholders' equity</b>			
Share capital	10	8,049,254	8,049,254
Other reserves		1,399,487	1,230,289
Deficit		(9,975,943)	(9,630,283)
		(527,202)	(350,740)
Non Controlling Interests		(355,632)	(355,632)
<b>Total shareholders' equity</b>		<b>(882,834)</b>	<b>(706,372)</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 226,436</b>	<b>\$ 31,915</b>
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 April 16, 2018, 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, 2017	Year ended December 31, 2016
<b>Expenses</b>			
Management fees		\$ 69,066	\$ 123,366
Promotion and investor conference		-	31,578
Regulatory and transfer agent fees		27,814	14,149
Professional fees		177,577	31,977
Finance costs		12,006	1,666
Foreign exchange loss (gain)		938	(11,929)
General and administrative expense	11	62,671	111,174
		<u>(350,072)</u>	<u>(301,981)</u>
<b>Other income (expense)</b>			
Revaluation of warrants liability		-	33,852
Interest and other income		-	106,687
Impairment of investments		(11,322)	-
Accretion expense		(14,315)	-
Recovery of account payables		30,049	-
Impairment of cash		-	(19,807)
<b>Loss from continuing operations</b>		<u>(345,660)</u>	<u>(181,249)</u>
Discontinued operations	15	-	(441,075)
<b>Net loss</b>		<u>(345,660)</u>	<u>(622,324)</u>
<b>Other comprehensive loss</b>			
Exchange difference on translating foreign operations		(75,218)	(78,886)
<b>Total comprehensive loss for the year</b>		<u>\$ (270,442)</u>	<u>\$ (701,210)</u>
Net loss attributed to:			
Equity holders of the parent		\$ (345,660)	\$ (498,072)
Non-controlling interests		-	(124,252)
		<u>\$ (345,660)</u>	<u>\$ (622,324)</u>
Total comprehensive loss attributed to:			
Equity holders of the parent		\$ (270,442)	\$ (557,236)
Non-controlling interests		-	(143,974)
		<u>\$ (270,442)</u>	<u>\$ (701,210)</u>
<b>Loss per common share:</b>			
Basic and diluted		<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding:			
Basic and diluted		<u>65,302,351</u>	<u>65,112,336</u>

**Khot Infrastructure Holdings, Ltd.**

**Consolidated Statements of Changes in Shareholders' 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	Equity Component of Convertible Debt	Contributed Surplus	Share based payment reserve					
<b>Balance at December 31, 2015</b>	<b>64,738,484</b>	<b>\$ 8,005,895</b>	<b>\$ (44,816)</b>	<b>\$ 650</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,333,619</b>	<b>\$ (9,132,211)</b>	<b>\$ 163,137</b>	<b>\$ (211,658)</b>	<b>\$ (48,521)</b>	
Units issued	563,867	43,359	-	-	-	-	-	-	43,359	-	43,359	
Total comprehensive loss for the year	-	-	(59,164)	-	-	-	-	(498,072)	(557,236)	(143,974)	(701,210)	
<b>Balance at December 31, 2016</b>	<b>65,302,351</b>	<b>\$ 8,049,254</b>	<b>\$ (103,980)</b>	<b>\$ 650</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,333,619</b>	<b>\$ (9,630,283)</b>	<b>\$ (350,740)</b>	<b>\$ (355,632)</b>	<b>\$ (706,372)</b>	
Issuance of convertible loans	-	-	-	-	44,837	-	-	-	44,837	-	44,837	
Credit on restructuring of debt	-	-	-	-	-	49,143	-	-	49,143	-	49,143	
Total comprehensive loss for the year	-	-	75,218	-	-	-	-	(345,660)	(270,442)	-	(270,442)	
<b>Balance at December 31, 2017</b>	<b>65,302,351</b>	<b>\$ 8,049,254</b>	<b>\$ (28,762)</b>	<b>\$ 650</b>	<b>\$ 44,837</b>	<b>\$ 49,143</b>	<b>\$ 1,333,619</b>	<b>\$ (9,975,943)</b>	<b>\$ (527,202)</b>	<b>\$ (355,632)</b>	<b>\$ (882,834)</b>	

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, 2017	Year ended December 31, 2016
<b>Cash flow used in operating activities</b>		
Loss for the year from continuing operations	\$ (345,660)	\$ (181,249)
Adjustments to reconcile loss to net cash used in operating activities:		
Accretion expense	14,315	-
Other income	-	(106,687)
Revaluation of warrants liability	-	(33,852)
Recovery of accounts payable	(30,049)	
Interest expense	11,550	-
Impairment of investments	11,322	-
Foreign exchange	(22,477)	-
Change in non-cash working capital balances:		
Accounts payable and accrued liabilities	155,110	193,138
Prepayments	4,434	5,540
<b>Total cash used in operating activities - continued operations</b>	<b>(201,455)</b>	<b>(123,110)</b>
<b>Total cash used in operating activities - discontinued operations</b>	<b>-</b>	<b>(126,022)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from loans	417,297	-
Proceeds from sale of units	-	60,447
<b>Total cash from financing activities</b>	<b>417,297</b>	<b>60,447</b>
<b>Effect of foreign exchange on cash</b>	<b>(5,536)</b>	<b>82,020</b>
<b>Total decrease in cash during the year</b>	<b>210,306</b>	<b>(106,665)</b>
<b>Cash and cash equivalents - Beginning of the year</b>	<b>12,780</b>	<b>119,445</b>
<b>Cash and cash equivalents - End of the year</b>	<b>\$ 223,086</b>	<b>\$ 12,780</b>
<b>Cash interest payments made during the year</b>	<b>\$ -</b>	<b>\$ -</b>

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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### **1. CORPORATE INFORMATION**

Khot Infrastructure Holdings, Ltd., [“KOT” or the “Company”] was engaged in the construction and maintenance of roads and bridges in Mongolia. On December 18, 2013, The Company completed the continuance from the laws of the Province of British Columbia to the laws of the British Virgin Islands.

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

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

KOT has a 100% interest in, Jucca Holdings Limited [“Jucca”], Wishland Properties Limited [“Wishland”], Great Hoard Holdings S. à r. l. [“GHH”]. As at December 31, 2017, the Company continues to have abandoned its activities in Mongolia (note 15).

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

#### **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 April 17, 2018.

#### **Basis of measurement, functional currency and going concern**

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

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

##### Going concern

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

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 relisting to the CSE, plans to develop broad-based indexing products and blockchain tracking metrics, 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.

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

#### **Basis of consolidation**

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

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

- 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



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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

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

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 December 31, 2017 and their principal activities are described below:

<u>Name of subsidiary</u>	<u>Place of incorporation</u>	<u>Ownership interest</u>	<u>Principal activity</u>
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

The Company continues to have abandoned its activities in Mongolia.

#### **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

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

Notes to the Consolidated Financial Statements  
For the years ended December 31, 2017 and 2016  
(Expressed in United States dollars)

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

#### **Business combinations (Continued)**

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.

#### **Foreign currency translation**

The consolidated financial statements are presented in United States dollars.

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

Company	Functional Currency	
Khot Infrastructure Holding, Ltd.	Canadian Dollar	CAD
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

Effective July 1, 2017, as a result of the Company contemplating a change of its business and entering financing transactions denominated in Canadian dollars, Khot Infrastructure Holding Ltd. reassessed its functional currency and determined it be Canadian dollars. Previously it had been United States Dollars.

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.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

#### **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.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

#### **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 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 judgment. In making this judgment, 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.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

#### **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.

#### **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 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 loss.

#### **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.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

#### **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 be determinable. It is in management's opinion that there are no matters, which will materially affect the Company.

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.

#### **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.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

#### **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.

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.

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

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

#### **Income taxes**

##### 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.

##### Deferred income taxes

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 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, at the time of the transaction, that affects neither the accounting profit nor taxable 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.



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

Notes to the Consolidated Financial Statements

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

#### **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.

#### **Standards, amendments and interpretations**

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for annual periods beginning after January 1, 2018, or later periods

The following new IFRSs that have not been early adopted in these financial statements will not have a material effect on the Company's future results and financial position:

- IFRS 2, Share-based Payment (Amendments to IFRS 2);
- IFRS 9, Financial Instruments (New; to replace IAS 39, IFRIC 9 and earlier versions of IFRS 9);
- IFRS 15, Revenue from Contracts with Customers (New; to replace IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 AND SIC-31); and
- IFRS 16, Leases (New; to replace IAS 17, IFRIC 4, SIC-15 AND SIC-27).

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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### **4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these consolidated financial statements requires management to make judgments, 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 judgments, estimates and assumptions are required. Changes in these assumptions may materially affect the financial position or financial results reported in future periods. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

#### Significant management judgments

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

#### Contingencies

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

#### Functional currency

The functional currency for the parent entity, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. 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. See Note 3.

#### Road repair provision

The Company historically provided 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 has not received any correspondence from the Mongolian government regarding historical road projects completed and it is anticipated that the provision for road repair should not materially changed. Management will continue to monitor reasonability of the provision.

#### 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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in United States dollars)

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

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, 2017 and 2016, the Company recorded an allowance for all of its accounts receivable. 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).

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### **5. Cash**

Cash consists of the following:

	December 31, 2017	December 31, 2016
	\$	\$
Cash in banks	<u>223,086</u>	<u>12,780</u>

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## Khot Infrastructure Holdings, Ltd.

Notes to the Consolidated Financial Statements  
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### 6. LONG TERM DEBT

	Long Term Debt \$
Balance, December 31, 2016	-
Issued	191,720
Discount recognized	(49,143)
Balance, December 31, 2017	<u>142,577</u>

For the year ended December 31, 2017, the Company renegotiated the terms of indebtedness in the amount of \$191,720 with three shareholders such that the first repayment date is after June 30, 2019. The loan does not accrue interest. The Company recorded \$49,143 as a credit to contributed surplus reflecting the discount compared to a similar loan that pays interest at market rates. See also Related Party Transactions (Note 14).

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### 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. During the year ended December 31, 2016 the consideration was valued at \$10,909 based on the last share price that Mogul shares were issued at, adjusted for subsequent market movements.

As at December 31, 2017, the Company impaired these investments by \$11,322.

Investments:

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

### 8. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND SHORT TERM LOANS

	December 31, 2017 \$	December 31, 2016 \$
Trade payables and other short term loans	<b>188,328</b>	236,187
Accrued liabilities	<b>74,180</b>	69,393
Due to related parties – short term	-	122,836
	<u><b>262,508</b></u>	<u>428,416</u>

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## Khot Infrastructure Holdings, Ltd.

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### 9. ROAD REPAIR PROVISION

	December 31, 2017	December 31, 2016
	\$	\$
Balance, beginning of the year	293,474	320,633
Effect of changes in foreign exchange rates	<u>(18,683)</u>	<u>(27,159)</u>
Balance, end of the year	<u>274,791</u>	<u>293,474</u>

Road repair obligations relate to the historical estimated remaining costs to complete the road constructions contract recognized in a previous year.

The Company's has not received any correspondence from the Mongolian government regarding historical road projects completed and it is anticipated that the provision for road repair should not materially changed. Management will continue to monitor reasonability of the provision.

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

#### 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 following table provides detailed information about stock options outstanding as at December 31, 2017

Expiry Date	Exercise Price CND	Options Outstanding	Weighted Average		Options Vested	Options unvested
			Remaining contractual Life (years)			
January 8, 2019	\$ 0.25	1,750,000	1.02		1,750,000	-
December 3, 2020	\$ 0.20	750,000	2.93		750,000	-
<b>Total</b>		<b>2,500,000</b>	<b>1.59</b>		<b>2,500,000</b>	<b>-</b>

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

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

Stock option activity is as follows:

	<b>Number</b>	<b>Weighted- Average exercise price CND \$</b>
<b>Outstanding December 31, 2015</b>	<b>6,270,000</b>	<b>0.24</b>
Granted	(3,095,000)	0.25
Forfeited	(300,000)	0.24
<b>Outstanding, December 31, 2016</b>	<b>2,875,000</b>	<b>0.24</b>
Expired	(150,000)	0.10
Forfeited	(225,000)	0.24
<b>Outstanding, December 31, 2017</b>	<b>2,500,000</b>	<b>0.24</b>

#### 2017

During the year ended December 31, 2017, 150,000 stock options expired and another 225,000 stock options were forfeited after the CFO and a consultant resigned.

#### 2016

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

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

### **Share based payment reserve**

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

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### **11. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>December 31, 2017</b>	December 31, 2016
	<b>\$</b>	<b>\$</b>
Phone, utilities, supplies and other	-	1,514
Website, internet and printing	-	819
Contractor fees, salary and source deductions	<b>52,801</b>	64,904
Travel	<b>1,298</b>	21,876
Other expenses	<b>691</b>	15,810
Insurance	<b>7,881</b>	6,251
	<b>62,671</b>	111,174

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## Khot Infrastructure Holdings, Ltd.

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### 12. SHORT TERM DEBT

	Short Term Debt
	\$
Balance, December 31, 2016	-
Issued	448,366
Equity portion	(44,837)
Accretion expense	14,315
Accrued interest	11,550
Balance, December 31, 2017	<u>429,394</u>

During the year ended December 31, 2017, the Company received short-term advances of \$417,297 (2016 - \$Nil) from third parties and converted \$31,069 of accounts payable into a short-term loan with a related party. The principal amount of \$448,366 plus accrued interest of \$11,550 (2016 - \$Nil) was recorded during the year. The notes bear interest of 8% per annum, which is calculated and payable semiannually. The notes have a one year term and are convertible by the holder at any point during the term at CDN \$0.01 per share. The Company recorded \$44,837 as the equity portion of the short-term advances and recognized accretion expense of \$14,315 (2016 - \$Nil). The equity portion was determined by discounting the loan using an estimated market rate of 20%.

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### 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, 2017 was Nil% (December 31, 2016 – 10%) as the Company's operations in Mongolia ceased in the prior year ended 2016.

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

	<u>December 31, 2017</u>	December 31, 2016
Loss for the year before income taxes	<b>(345,660)</b>	(602,517)
Statutory tax rate	<b>10%</b>	10%
Expected income tax recovery	<b>(36,000)</b>	(60,000)
Non-deductible permanent differences	<b>(3,000)</b>	3,000
Difference in foreign tax rates	<b>39,000</b>	14,000
Deferred tax assets not recognized	-	50,000
Other	-	(7,000)
Income tax expense	<u>-</u>	<u>-</u>

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.

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

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### **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:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<u>Short-term Key management benefits</u>	\$	\$
Compensation including salary	<b>91,819</b>	123,366

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1) Management fees include \$60,000 (\$60,000 – 2016) paid or accrued to Don Padgett, the Company’s Chief Executive Officer. As at December 31, 2017, \$99,812 (\$54,559 – 2016) was owed to Don Padgett. The Company renegotiated the terms of indebtedness such that the first repayment date is after June 30, 2019. The loan does not accrue interest (Note 6).

2) Professional fees include \$22,753 (\$nil – 2016) paid to Alan Tam, the Company’s current Chief Financial Officer. As at December 31, 2017, \$3,225 (\$nil – 2016) was accrued to Alan Tam. Prior year’s management fees included amounts paid to Sabino Di Paola, the Company’s former Chief Financial Officer and Corporate Secretary (Note 6).

3) Professional fees include \$40,168 (\$18,118 – 2016) paid or accrued to Erin Chutter, one of the directors of the Company. As at December 30, 2017, \$75,220 (\$9,290 – 2016) payable were due to Erin Chutter. The Company renegotiated the terms of indebtedness such that the first repayment date is after June 30, 2019. The loan does not accrue interest.

On June 30, 2017, James Passin, one of the directors, signed a loan agreement with the Company to convert some of the existing related party loan balances to short term loan agreement debt and also provide additional new loan proceeds. On October 1, 2017, the loan agreement was renegotiated to include all remaining related party loan balances, which totalled \$29,728 and also provide \$105,539 in new loan proceeds. The term of the loan is for one year, maturing June 30, 2018 and accrue interest at 8%. As at December 31, 2017, the total loan amount including accrued interest was \$135,267 and is included in short term debt (Note 12).



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### **15. DISCONTINUED OPERATIONS**

During the prior year ended December 31, 2016, the Company determined that its Mongolian operations would be disposed of in order to pursue other opportunities.

The net income from discontinued operations for the years ended December 31, 2017 and 2016 is as follows:

	<b>December 31, 2017</b>	December 31, 2016
	\$	\$
Interest income	-	(123)
Foreign exchange (gain) loss	-	(42,687)
Impairment of accounts receivable	-	269,995
Impairment of equipment	-	8,336
Other expenses	-	115,562
Administrative expenses	-	89,991
	-	<b>441,075</b>

### **16. SEGMENT REPORTING**

As at December 31, 2017, the Company had no reportable operating segment since, in the prior year ended December 31, 2016, the Company determined that its Mongolian operations would be disposed of in order to pursue other opportunities. All of the Company's non-current assets are located in Canada.

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### **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. The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets, to finance its future plans to develop broad-based indexing products plus blockchain tracking and for general corporate costs.

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, 2017 and December 31, 2016. The Company is not subject to externally imposed capital requirements or covenants.

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

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### **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.

	<b>December 31, 2017</b>	December 31, 2016
	\$	\$
Available for sale investments	-	11,351
Accounts payable	<b>(262,508)</b>	(444,813)
Short term debt	<b>(429,394)</b>	-
Long term debt	<b>(142,577)</b>	-

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

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

#### **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, and liquidity risk. Reflecting the current stage of development of the Company's proposed 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.

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

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### **18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **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 is primarily composed of cash.

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

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. At December 31, 2017, the Company had a working capital deficit of \$740,257. All of the current accounts payable and accrued liabilities, short-term loans 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**

Foreign exchange risk is the risk of fluctuations in the fair value of its financial instruments due to movements in the foreign exchange rates. During the year ended December 31, 2017, the Company determined its functional currency to be Canadian dollars. At December 31, 2017, net financial liabilities denominated in United States dollars was \$123,715.

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### **19. EVENTS AFTER THE REPORTING PERIOD**

#### **Loan agreements**

The Company entered into loan agreements with various third party investors in the amount of \$40,239. The terms of each loan is for one year from the date of each agreement and accrue interest at 8%.

#### **Revocation of cease trade**

On February 2, 2018, the Company announced that it had obtained an order from the Ontario Securities Commission revoking the cease trade order issued on May 5, 2017. The Company is working towards obtaining full listing to the CSE.