

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

**Khot Infrastructure Holdings, Ltd.**  
(Formerly Undur Tolgoi Minerals Inc.)  
For the nine months ended September 30, 2014

**Khot Infrastructure Holdings, Ltd.**  
Condensed Consolidated Interim Financial Statements  
For the nine months ended September 30, 2014

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

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

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

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

"Donald Padgett"  
President and Chief Executive Officer

"Sabino Di Paola"  
Chief Financial Officer

November 28, 2014

### **Notice of no review or audit**

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

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

The Company's independent auditor has not performed a review or audit of these condensed consolidated interim financial statements.

# Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)

## Condensed Consolidated Interim Statements of Financial Position

(expressed in United States dollars)

	Notes	As at September 30, 2014	As at December 31, 2013
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	5	\$ 789,882	\$ 1,870,806
Accounts receivable	6	166,500	165,101
Prepayment	7	576,101	37,416
<b>Total current assets</b>		<b>1,532,483</b>	<b>2,073,323</b>
Non-current assets			
Property, plant and equipment		33,011	2,630
Investments	8	125,000	125,000
<b>Total non-current assets</b>		<b>158,011</b>	<b>127,630</b>
<b>Total assets</b>		<b>\$ 1,690,494</b>	<b>\$ 2,200,953</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 381,397	\$ 236,607
<b>Shareholders' equity</b>			
Share capital	9	7,983,250	7,983,250
Other reserves	9	1,214,884	852,792
Deficit		(7,833,648)	(6,867,436)
		<b>1,364,486</b>	<b>1,968,606</b>
Non Controlling Interests		(55,389)	(4,260)
<b>Total Equity</b>		<b>1,309,097</b>	<b>1,964,346</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 1,690,494</b>	<b>\$ 2,200,953</b>
Contingencies	11		
Events are the reporting date	15		

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

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 28, 2014, and are signed on its behalf by:

signed "James Passin"

Director

signed "Don Padgett"

Director

## Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)

### Condensed Consolidated Interim Statements of Comprehensive Loss

(expressed in United States dollars)

Notes	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
<b>Expenses</b>				
Management fees	10 \$ 26,790	\$ 29,250	\$ 96,319	\$ 88,342
Promotion & investor conference	2,173	4,014	36,657	143,613
Regulatory, exchange, AGM, press release and transfer agent fees	2,465	2,838	18,448	14,958
Professional fees	29,043	17,510	126,530	94,632
Finance costs	3,251	885	5,470	2,039
Depreciation	3,934	89	7,326	267
Impairment of exploration and evaluation assets	-	(83,980)	-	490,859
Other expenses	100,500	134,002	586,245	236,055
	<u>168,156</u>	<u>104,610</u>	<u>876,995</u>	<u>1,070,766</u>
Interest income	6,171	5,269	13,401	17,307
Foreign exchange (loss)/gain	(98,241)	43,839	(156,994)	(123,646)
	<u>(92,070)</u>	<u>49,108</u>	<u>(143,593)</u>	<u>(106,339)</u>
Loss before income tax	260,226	55,502	1,020,588	1,177,105
Income tax expense	-	-	-	-
<b>Consolidated loss after income tax expense</b>	<b>\$ 260,226</b>	<b>\$ 55,502</b>	<b>\$ 1,020,588</b>	<b>\$ 1,177,105</b>
<b>Other comprehensive (income) loss</b>				
Exchange difference on translating foreign operations	(15,132)	(17,092)	(87,092)	(9,784)
<b>Total comprehensive loss for the year</b>	<b>\$ 245,094</b>	<b>\$ 38,410</b>	<b>\$ 933,496</b>	<b>\$ 1,167,321</b>
Net loss attributed to:				
Equity holders of the parent	\$ 369,023	\$ 55,502	\$ 966,212	\$ 1,177,105
Non-controlling interests	\$ 40,295	\$ -	\$ 54,376	\$ -
	<u>\$ 260,226</u>	<u>\$ 55,502</u>	<u>\$ 1,020,588</u>	<u>\$ 1,177,105</u>
Total comprehensive loss attributed to:				
Equity holders of the parent	\$ 338,078	\$ 38,410	\$ 881,297	\$ 1,167,321
Non-controlling interests	\$ 56,108	\$ -	\$ 52,199	\$ -
	<u>\$ 245,094</u>	<u>\$ 38,410</u>	<u>\$ 933,496</u>	<u>\$ 1,167,321</u>
<b>Loss per common share:</b>				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding:				
Basic and diluted	<u>64,351,484</u>	<u>58,987,848</u>	<u>64,351,484</u>	<u>58,987,848</u>

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

## Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)

### Condensed Consolidated Interim Statements of Changes in Equity

(expressed in United States dollars)

	Number of common shares (#)	Share Capital	Reserves		Deficit	Attributable to Equity Holders of the Parent	Non - Controlling Interest	Shareholders' equity
			Foreign currency translation reserve	Share based payment reserve				
<b>Balance at December 31, 2012</b>	<b>58,987,848</b>	<b>\$ 7,894,609</b>	<b>\$ (39,048)</b>	<b>\$ 911,972</b>	<b>\$ (5,385,603)</b>	<b>\$ 3,381,930</b>	<b>\$ -</b>	<b>\$ 3,381,930</b>
Total comprehensive loss for the period	-	-	9,784	-	(1,177,105)	(1,167,321)	-	(1,167,321)
<b>Balance at September 30, 2013</b>	<b>58,987,848</b>	<b>\$ 7,894,609</b>	<b>\$ (29,264)</b>	<b>\$ 911,972</b>	<b>\$ (6,562,708)</b>	<b>\$ 2,214,609</b>	<b>\$ -</b>	<b>\$ 2,214,609</b>
Acquisition of GHH and AMZ	5,363,636	88,641	-	-	-	88,641	2,211	90,852
Total comprehensive loss for the period	-	-	(29,916)	-	(304,728)	(334,644)	(6,471)	(341,115)
<b>Balance at December 31, 2013</b>	<b>64,351,484</b>	<b>\$ 7,983,250</b>	<b>\$ (59,180)</b>	<b>\$ 911,972</b>	<b>\$ (6,867,436)</b>	<b>\$ 1,968,606</b>	<b>\$ (4,260)</b>	<b>\$ 1,964,346</b>
Total comprehensive loss for the period	-	-	-	-	(966,212)	(966,212)	(54,376)	(1,020,588)
Cumulative translation adjustment	-	-	87,092	-	-	87,092	3,247	90,339
Issuance of stock options	-	-	-	275,000	-	275,000	-	275,000
<b>Balance at September 30, 2014</b>	<b>64,351,484</b>	<b>\$ 7,983,250</b>	<b>\$ 27,912</b>	<b>\$ 1,186,972</b>	<b>\$ (7,833,648)</b>	<b>\$ 1,364,486</b>	<b>\$ (55,389)</b>	<b>\$ 1,309,097</b>

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

# Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)

## Condensed Consolidated Interim Statements of Cash Flows

(expressed in United States dollars)

	Nine months ended September 30, 2014	Nine months ended September 30, 2013
<b>Cash flow from operating activities</b>		
Loss for the period	\$ (1,020,588)	\$ (1,177,105)
Adjustments to reconcile loss to net cash used in operating activities:		
Impairment of exploration and evaluation assets	-	490,859
Stock option expense	275,000	-
Depreciation	7,326	267
Change in non-cash working capital balances:		
Accounts receivable	(1,399)	67,653
Accounts payable and accrued liabilities	144,790	(165,247)
Prepays	(538,685)	29,362
<b>Total cash used in operating activities</b>	<b>(1,133,556)</b>	<b>(754,211)</b>
<b>Cash flows from investing activities</b>		
Acquisition of interest in Anya-1	-	(125,000)
Investment in exploration and evaluation assets	-	(60,900)
<b>Total cash (used in)/generated from investing activities</b>	<b>\$ -</b>	<b>\$ (185,900)</b>
<b>Effect of foreign exchange on cash</b>	<b>\$ 52,632</b>	<b>\$ 119,242</b>
<b>Total (decrease)/increase in cash during the period</b>	<b>\$ (1,080,924)</b>	<b>\$ (820,869)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>1,870,806</b>	<b>2,789,956</b>
<b>Cash and cash equivalents - End of period</b>	<b>\$ 789,882</b>	<b>\$ 1,969,087</b>

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**KHOT INFRASTRUCTURE HOLDINGS, LTD.**  
**(Formerly Undur Tolgoi Minerals Inc.)**  
**NOTES TO THE**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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## **1. CORPORATE INFORMATION**

Khot Infrastructure Holdings, Ltd., (formerly Undur Tolgoi Minerals Inc.) [“KOT” or the “Company”] was incorporated on December 22, 2010 under the Business Corporations Act of British Columbia as a private company. KOT is engaged in the construction and maintenance of roads and bridges in Mongolia. The Company has not commenced construction activities during the year.

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 Ontario Securities Commission and its shares trade on the Canadian Securities Exchange (“CSE”) (formerly, Canadian National Stock Exchange) under the symbol “KOT”.

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

KOT has a 100% interest in Natalya-1 S. à r. l. [“Natalya-1”], Novametal Resources LLC [“Novametal”], Jucca Holdings Limited [“Jucca”], Wishland Properties Limited [“Wishland”], Great Hoard Holdings S. à r. l. [“GHH”] and a 75% interest in Ashid Munkhiin Zam LLC [“AMZ”] & Ashid Munkhiin Zam International LLC [“AMZI”].

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## **2. BASIS OF PREPARATION**

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

The Company applies IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of September 30, 2014. The same accounting policies and methods of computation are followed in these condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2013. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2014 could result in restatement of these condensed consolidated interim financial statements.

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

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

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 27, 2014.

**(b) Basis of measurement and functional currency**

These condensed consolidated interim 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.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of consolidation**

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as at September 30, 2014.

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

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

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

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the condensed consolidated interim statement of comprehensive loss 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 of the 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

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

The subsidiaries of the Company at September 30, 2014, and their principal activities are described below:

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

**(b) Standards, amendments and interpretations**

Certain new accounting standards and interpretations have been published that are mandatory for the December 31, 2014 reporting year. The following is a brief summary of the new standards adopted in the year:

IAS 32 Financial Instruments: Presentation

IAS 32 was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company's consolidated financial statements.

IAS 36 - Impairment of Assets

IAS 36 requiring disclosure of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. These amendments are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company's consolidated financial statements.

IFRIC 21 Levies

In May 2013, the IASB issued IFRIC 21 – Levies (“IFRIC 21”), an interpretation of IAS 37 – Provision, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligation event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The adoption of this standard did not result in any changes to the Company's consolidated financial statements.

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.

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

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first two phases of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined by IAS 39; and hedge accounting for impairment of financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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**4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements.

Significant management judgements

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

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 condensed consolidated interim 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.

As at September 30, 2014, the Company had a working capital surplus of \$1,151,086 (December 2013 - \$1,836,716), including \$789,882 (December 2013 - \$1,870,806) in cash and cash equivalents. The Company is actively seeking to obtain development contracts from the Mongolian Government.

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

The Company anticipates having sufficient funds to discharge its current liabilities and meet its corporate administrative expenses for at least twelve months. However, the Company will require additional financing, through various means including but not limited to equity financing, to continue seeking infrastructure development contracts. There is no assurance that the Company will be successful in raising the additional required funds or be awarded any development contracts.

Contingencies

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

Functional currency

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

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, 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 8).

Estimates and assumptions

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

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**5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<b>September 30, 2014</b>	December 31, 2013
	\$	\$
Cash in banks	<b>789,882</b>	1,870,806

As at September 30, 2014, Canadian Dollars, CAD\$234,587 (CAD\$1,769,957 – December 31, 2013), and Mongolian Tugrik, MNT 24,920,047 (MNT 15,859,698 – December 31, 2013) was included in the cash of the Company. This amount has been translated into USD using the closing exchange rates on September 30, 2014.

Cash earns interest at floating rates based on the daily bank deposit rates.

**6. ACCOUNTS RECEIVABLE**

	<b>September 30, 2014</b>	December 31, 2013
	\$	\$
Sales tax receivable	-	10,086
Other receivables	<b>12,902</b>	-
Recovery of administrative expenses	<b>153,598</b>	155,015
	<b>166,500</b>	165,101

All accounts receivable are non-interest bearing and are generally on 30 day terms.

On February 24, 2014, as a result of the Company's continuance into the British Virgin Islands, KOT closed its Canadian sales tax accounts, as the Company is now exempt from sales tax under Canadian Revenue Agency policy.

**7. PREPAYMENTS**

	<b>September 30, 2014</b>	December 31, 2013
	\$	\$
Office and administrative expenses	<b>4,394</b>	37,416
Road repair and development	<b>571,707</b>	-
	<b>576,101</b>	37,416

During the quarter ended September 30, 2014, the company prepaid for road repair and development services and supplies in preparation its initial contract awarded in October 2014. Refer to note 15 for more information.

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**8. INVESTMENTS**

On May 31, 2013, the Company announced that it has reached a definitive agreement to subscribe for 75,950 common shares, which represents 5.05% interest in Anya-2 Sarl ("Anya"), for a total consideration of \$125,000. Anya, a private Luxembourg company, is a wholly owned subsidiary of Hulaan Coal Corporation ("Hulaan"), a private Canadian company. Anya in turn, owns 66% of Western Minex LLC ("WM"), a private Mongolian company, which owns the Ochiriin Bulag Gold Prospect (the "Project" or "OB").

Under this agreement, KOT shall be entitled to subscribe for additional shares of Anya, up to an aggregate shareholding in Anya of 30.25% interest. As of June 30, 2014, the Company has not made any further acquisitions in Anya-2. The investment is classified as available – for – sale financial asset and was measured at fair value.

Investments:

	September 30, 2014	December 31, 2013
	\$	\$
Investment in Anya-2 Sarl	<b>125,000</b>	125,000

**9. 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 September 30, 2014, and December 31, 2013, there were 64,351,484 (December 31, 2012 - 58,987,848) common shares outstanding.

**Common share issuances**

Fiscal 2014

There were no common shares issued during the nine months ending September 30, 2014.

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**9. SHARE CAPITAL (Continued)**

**Stock options**

Under the terms of the Company's stock option plan (the "Plan") all options are granted with an exercise price equal to 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 September 30, 2014.

Expiry Date	Exercise Price	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	\$ 0.25	3,675,000	2.19	3,675,000	-
January 8, 2019	\$ 0.25	2,300,000	4.28	2,300,000	-
<b>Total</b>		<b>5,975,000</b>	<b>2.95</b>	<b>5,975,000</b>	

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.

Stock option activity is as follows:

	Number	Weighted- Average exercise price	Expiry
<b>Outstanding, December 31, 2013</b>	4,075,000	0.25	December 6, 2016
Granted	2,300,000	0.25	January 8, 2019
Forfeited	(400,000)	0.25	December 6, 2016
<b>Outstanding, September 30, 2014</b>	<b>5,975,000</b>	<b>0.25</b>	<b>December 6, 2016</b>

On January 8, 2014, 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 2,300,000 common shares in the capital of the Company exercisable for a period of five years ending on January 8, 2019, at an exercise price of \$0.25 per share.



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**9. SHARE CAPITAL (Continued)**

The weighted average fair value of each option granted during the nine months ended September 30, 2014, was estimated at \$0.12 using the Black Scholes option pricing model with the following weighted average assumption:

Average share price at date of grant	\$ 0.12
Expected dividend yield	0.00%
Expected share price volatility	264%
Risk free interest rate	1.10%
Expected life of options	5 years
Average exercise price at date of grant	\$ 0.25

The underlying expected volatility was determined by reference to historical data of KOT's shares listed on the CSE based on annual price volatility for the same term as the term of the option from the issuance date. 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:

	<b>As at September 30, 2014</b>	As at December 31, 2013
	\$	\$
Balance, beginning of year	<b>911,972</b>	911,972
Stock-based compensation	<b>275,000</b>	-
<b>Balance, end of the year</b>	<b>1,186,972</b>	911,972

**10. 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, the Chief Financial Officer, and Vice President of Exploration. Key management remuneration includes the following:

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**10. RELATED PARTY TRANSACTIONS (Continued)**

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<u>Short-term Key management benefits</u>	\$	\$	\$	\$
Compensation including bonuses	32,047	31,301	99,134	69,560
<u>Long-term Key management benefits</u>				
Share based payments	-	-	191,304	-
Total remuneration	32,047	31,301	290,438	69,560

1) Management fees include \$44,707 (\$44,256 – 2013) 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 CAD \$1,000 a month for performing services as the CEO. As at September 30, 2014, \$NIL (\$NIL – 2013) payable were due to Don Padgett.

2) Professional fees include \$35,926 (\$25,304 – 2013) 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 CAD\$110/hour for services rendered as well as CAD \$1,000 a month for performing services as the CFO. As at September 30, 2014, accounts payable of \$1,107 (\$685 – 2013) were due to Sabino Di Paola.

3) Management fees include \$ 15,000 (\$ nil – 2013) paid to Erdembileg Jugdernamjil the Company’s Chief Operating Officer. The Company has a consulting contract with Erdembileg Jugdernamjil whereby the company pays \$2,500 a month for management fees. As at September 30, 2014, \$NIL (\$NIL – 2013) payable were due to Erdembileg Jugdernamjil.

4) During the nine months ended September 30, 2014, consulting fees of \$3,500 were paid to one of the non-executive directors for services in assistance with potential business opportunities.

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

**11. CONTINGENCIES**

Great Hoard Holdings S.A.R.L. has a shareholder agreement with the minority interest of Ashid Munkiin Zam LLC in which Great Hoard Holdings S.A.R.L. shall transfer 3,693,675 shares, representing 5% of the outstanding shares of AMZ should AMZ be awarded a 30,000,000 MNT contract for construction of roads in Mongolia, there is no material disagreement between the parties, and the management agreement remains in force and has not been terminated. An additional transfer of 3,693,675 shares, representing 5% of the outstanding shares of AMZ would be transferred to the minority interest should the management agreement remain active after three years.

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## 12. SEGMENT REPORTING

The Company had one reportable operating segment of infrastructure development. All of the Company's non-current assets are located in Mongolia and Luxembourg.

The Company has the following noncurrent assets located in Mongolia for its infrastructure development activities:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Property, plant and equipment	\$ 33,011	\$ 2,630

The Company has the following noncurrent assets located in Luxembourg

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Investment in Anya-2	\$ 125,000	\$ 125,000

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## 13. 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 September 30, 2014, totals \$ 1,364,486 (December 2013 - \$ 1,968,606). 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 currently has no source of revenues; as such 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 nine months ended September 30, 2014, and the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements or covenants.

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**14. 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>September 30, 2014</b>	December 31, 2013
	\$	\$
Available for sale investments	<b>125,000</b>	125,000
Loans and receivables	<b>166,500</b>	2,035,907 <sup>2</sup>
Other financial liabilities <sup>1</sup>	<b>(381,397)</b>	(236,607)
	<b></b>	<b></b>

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

<sup>2</sup> cash and accounts receivable, excluding sales tax 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 September 30, 2014, and December 31, 2013, the Company's financial instruments which are measured at fair value on a recurring basis was cash. This financial instrument was classified as Level 1 financial instrument.

The investment in Anya-2 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 net assets of the Company as at September 30, 2014, 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, liquidity risk and commodity price risk. Reflecting the current stage of development of the Company's various projects, the Company's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan. Risk management is the responsibility of the finance function. Material risks are identified and monitored and are discussed by senior management and with the Audit Committee and the Board of Directors.

**Interest rate risk**

The Company does not have any debt obligations which expose it to interest rate risk.

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**14. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit risk**

Credit risk is the risk of an unexpected loss if a party to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash, short-term investments, dues to and from related parties and accounts receivable. Maximum exposure is equal to the carrying values of these assets. The Company's cash is held at several large financial institutions. Furthermore, the company has assessed the recoverability of the accounts receivable and the balance is deemed recoverable. It is management's opinion that the Company is not exposed to significant credit risk.

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. At September 30, 2014, the Company had a working capital of \$1,151,086 [December 31, 2013 - 1,836,716]. Payables are due and payable within 30 days. Accordingly, the Company is able to meet its current obligations.

**Foreign exchange risk**

The Company conducts operations in Mongolia where many of its transactions are denominated in the Mongolian Tugrik. Accordingly the results of operations and financial position of the Company are subject to changes in the exchange rate between the US dollar ("USD") and the Mongolian tugrik. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Certain of the Company's cash and cash equivalents, amounts receivable and accounts payable are held in Canadian dollars ("CAD"); therefore, CAD amounts are subject to fluctuation against the USD.

The Company is not significantly exposed to a fluctuation of foreign exchange, interest, or credit risk.

Assuming that all other variables remain constant, a 10% appreciation or depreciation of the MNT or CAD against the USD would not have a significant impact on net loss.

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**15. EVENTS AFTER THE REPORTING DATE**

On October 7, 2014, Ashid Munkhiin Zam LLC ("AMZ"), had been awarded a contract to repair six kilometers of a twelve-kilometer road repair contract awarded to four companies, including AMZ. The project is located in Khongor Sum in Darkhan Aimag, Mongolia, strategically situated on the north-south road that connects Russia, China, and all the major cities in Mongolia, including Ulaanbaatar, Sukhbaatar, Darkhan and Sainshand. The total cost of the project has been budgeted and approved by the Mongolia Ministry of Road and Transportation. Khot anticipates completion of the project in early Q4 2014.

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